MU'TAH UNIVERSITY
DEANSHIP OF THE GRADUATE STUDIES

The Impact of Business Strategy on Budgetary Control System Characteristics in Jordanian Manufacturing Companies

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A Thesis Submitted to the Deanship of the Graduate Studies in Partial Fulfillment of the Requirement for the Degree of Master of Business Administration (MBA-Accounting) Department of Business Administration

Mu'tah University, 2011

Dedication

To the one who notified the message, prophet **MOHAMMAD** peace be upon him.

To *my beloved mother* who gave without return an offset, the person who challenged difficulties to rise me. To the one who means every thing to me in the universe after ALLAH and his prophet.

To *my father* who taught me patience and success and whom I miss when facing difficulties and worries. May god rest his soul in peace.

To *my brothers and sisters* who are my support and strength, ones who favored me on themselves and presented to me all kinds of support.

To *my colleagues* whom I experienced with them the most impressing moments.

Wa´el AL-Saraireh

Acknowledgment

First and foremost, I thank **ALLAH** for giving my grace to endure until the end.

My particular thanks go to my supervisor Dr. Mohammad AL-Dahiyat who supported me and presented his efforts and advice to have like this work. He has always been there, at any time, when I needed help the most.

I am very obligated to the discussion committee who agreed to discuss this thesis and who enriched it with their valuable notes.(Professor Mansour Saaydah, Dr. Yasin AL-Issa, Dr. Reyad AL-Hamaideh)

Thanks a lot to the teaching staff in both accounting and business administration departments who encouraged and helped me while preparing this thesis. Also, I am very thankful to Dr.Issa AL-Khataba, Dr. khaleel AL-Nawaiseh, Dr. Atheer Shaher AL-Saraireh, Yousef AL-Nawaiseh, Kamal AL-Adaileh They were always help me with out hesitating.

Last but not least, I would like to thank and apologize for those who guided and supported me and whom I forgot to mention in this work.

Again, thanks to all of you for helping me to complete this thesis.

Wa´el AL-Saraireh

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List of Abbreviations

MA	Management accounting
MACS	Management accounting control systems
MCSs	Management control systems
INTBUD	Interactive budgetary usages
DIABUD	Diagnostic budgetary usages
BUDREV	Tightness of budgetary revision
BUDIMP	Importance of meeting budgetary targets
COSTSTR	Low cost strategy
DIFFSTR	Differentiation strategies

ABSTRACT

The Impact of Business Strategy on Budgetary Control System Characteristics In Jordanian Manufacturing Companies

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Mu'tah University, 2011

This research aims at determining budgetary control system characteristics (i.e. practices and usages), and investigating the impact of business strategy on budgetary control system characteristics in Jordanian manufacturing companies.

A survey methodology was utilized using questionnaires to gather data from eighty one Jordanian manufacturing companies listed in Amman Stock Exchange. A total of sixty four usable questionnaires were received and were used for data analysis. Descriptive and regression analyses were used to achieve the research objectives.

The main findings of the descriptive analysis reveal that Jordanian manufacturing companies use budgets in a traditional fashion for performance evaluation and allocating resources rather than for planning, learning and debating ongoing activities and decisions. The findings also reveal that only low cost strategy has a significant impact on budgetary usages and practices in the Jordanian manufacturing companies.

The findings of this research raise important issues and implications for management accounting researchers and practitioners that is hoped to enhance knowledge on budgetary control system characteristics in Jordanian manufacturing companies.

الملخص

أثر استراتيجيات الأعمال على خصائص أنظمة الموازنات لغايات الرقابة في الشركات الصناعية الأردنية

وائل عبدالفتاح الصرايرة

جامعة مؤتة 2011

يهدف هذا البحث إلى تحديد خصائص أنظمة الموازنات (الممارسات والاستخدامات), وأيضا معرفة اثر استراتيجيات الأعمال على خصائص أنظمة الموازنات لغايات الرقابة في الشركات الصناعية الأردنية.

لقد اعتمدت منهجية البحث على استخدام الإستبانة لجمع البيانات من 81 شركة صناعية أردنية مدرجة في سوق عمان المالي. حيث تم اعتماد 64 استبانه لغاية تحليل البيانات, وقد تم استخدم أسلوب التحليل الوصفي وتحليل الانحدار لتحقيق أهداف البحث.

أظهرت نتائج هذا البحث ومن خلال التحليل الوصفي أن معظم الشركات الصناعية الأردنية تستخدم الموازنات لغايات تقليدية في تقييم الأداء وتخصيص الموارد أكثر من استخدامها لغايات التخطيط والتعلم واتخاذ القرارات اللازمة لبعض الأنشطة. كما أظهرت نتائج أن إستراتيجية التكلفة ذات اثر ذو دلالة إحصائية على استخدامات وممارسات الموازنات في الشركات الصناعية الأردنية. حيث تبرز نتائج هذا البحث قضايا وتطبيقات مهمة للباحثين والممارسين للمحاسبة الإدارية من أجل تعزيز معرفتهم حول خصائص نظم الموازنات لغايات الرقابة في الشركات الصناعية الأردنية.

Chapter One
Introduction

1.1 Research Background

Management accounting (MA) has a key role towards the achievement of organizational success. Management accounting control systems (MACS) (**Management accounting, Management accounting control systems, and management control systems are used synonymously in the literature**) provide relevant and timely information to help managers to coordinate and control the activities of the organizations to meet the challenges in the business environment. Budgeting is considered as one of the central management accounting Control systems (MACS) that generates information needed for planning, coordinating, controlling and performance evaluation purposes as well as a major tool for correcting performance and ensuring that managerial policies and decisions are well implemented.

Despite the importance of budgetary control systems as a topical issue in management accounting literature, there is little research that have examined the role of budgetary control systems in business organizations and how these systems are used in organizations pursuing different strategies (Dent, 1990; Argyris,1990).

The majority of prior studies on MACS have followed a contingency theory perspective and argued that there is no one best budgetary control system applicable to all organizations and that different organizations pursuing different strategies require different budgetary and control systems (Chenhall and langfield-smith,1998). However, prior studies that have examined the relationship between budgetary control systems and business strategies have been limited (Simons,1987 ; Govindarajan,1988). These literature have studied budgetary control systems purely as controlling tool without investigating how the role of accounting might change based on the strategic setting (Chapman, 1997). In particular, what is ignored by much of the research is potential for MACS to be used much more actively as a tool for formulating and implementing changes in business strategy direction.

Moreover, Simons (1990) argues that budgets can be used diagnostically or interactively. Diagnostic usage of budget relates to the traditional usage of budget for motivating, evaluating managers, monitoring and controlling activities, and correct deviations from preset measures of performance. While Interactive usage of budget relates to using budgets actively as a tool for planning, coordinating and communicating strategic priorities and plans (Abrenethy and Brownell,1999).

Therefore, this study attempts to increase understanding of budgetary control system characteristics (i.e. practices and usages) in Jordanian manufacturing companies and examining the impact of business strategies on budgetary control system characteristics (i.e. practices and usages).

1.2 Statement of the Problem

Despite the importance of budgetary control systems and its relationship with business strategy, little research to date have investigated how business strategy may influence budgetary control systems in general and in Jordanian manufacturing companies in particular. Also, previous studies have concentrated on budgetary control system as a control and performance evaluation tool, neglecting other usages such as planning, coordination and motivation. The lack of development and knowledge on budgetary control system design in Jordanian context and the need for systematic empirical research on this area have provided a motivation for undertaking this study.

Thus, this study will investigate budgetary control systems in Jordanian manufacturing companies and examine the impact of business strategy on budgetary control system characteristics (i.e. practices and usages).

1.3 Research Objectives

The current study aims at extending knowledge and understanding of budgetary control system characteristics (i.e. practices and usages) in Jordanian manufacturing companies and identifying the impact of business strategy on budgetary control system characteristics. Thus, this study aims at achieving the following research objectives:

1. To determine budgetary control system characteristics (i.e. practices and usages) in the Jordanian manufacturing companies.
2. To determine the impact of business strategies on budgetary control system characteristics (i.e. practices and usages).

1.4 The Significance of the Research

This study utilizes the contingency theory in studying budgetary control system characteristics. The importance of the study was implicitly mentioned in prior discussions; however the following discussion will explicitly state the Significance of the study:

1. The literature of MACS indicates that the limited empirical research conducted to date have not yielded any concrete results about the nature of the most relationship between business strategies and budgetary control systems (Chenhall, 2003). Thus, it is essential to

conduct this study to investigate the effect of business strategies on budgetary control system characteristics (i.e. practices and usages).

2. Studying budgetary control system practices and usage rather than taking single budgetary dimension or narrow definition of budgeting in this study would provide better understanding on this topical issue.
3. This study contributes to the literature by studying budgetary control systems in Jordanian context. Prior budgetary contingency theory studies, although were few, were conducted in different countries and contexts, and none were implemented in Jordan. Thus, this study adds to the literature by advancing knowledge on whether the findings of prior studies can also be applied to the Jordanian context.

1.5 The Organization of the Research

Following the introduction in the first chapter, the theoretical foundation for the research is provided in chapter two. The main terms of key topics: firstly, introduces the concept of budgetary control systems such as a definition of budget and budgetary control systems, objectives of budgetary control systems, requisites for a successful budgetary control systems, advantages of budgetary control systems, budgetary usages and practices, different types of budgeting prepared by organizations, nature of budget Participation ,traditional budgets and better budgets. The second section shows the introduces the concept of strategy and strategy typologies that had been implemented in management literatures. The third section shows the review of the literature on budgetary control systems . The last section shows the definitions of the study variables, the study model and hypotheses.

Research methodology and questionnaire development are presented in chapter three. This chapter describes the research design, data sources, questionnaire development, questionnaire construction , question types and formats, research population and sample, Survey administration and response profile. Also, this chapter discusses the technique for analyzing the data.

Finally chapter four presents validity and reliability of the study variables and instruments. the research findings, discussions and recommendations.

Chapter Two
Theoretical background

2.1 Budgetary Control Systems, An Overview and Literature Review

Budget: The Chartered Institute of Management Accountants (CIMA) has defined budget as "a quantitative statement for a defined period of time, which may include planned revenues, assets, liabilities and cash flows". CIMA also emphasized that the budget provides a focus for the organization, aids the co-ordination of activities and facilitates control. Moreover, the Australian National Institute of Accountant (NIA) provides two different yet quite extensive definitions of budget, offering different views on the purpose and form of a budget (Horngren et al, 2005). The first definition views the budget as a management tool, forming an integral and a necessary part of organizational stewardship. Budget is considered as "a comprehensive plan in writing, stated in monetary terms, that outlines the expected financial consequences of management's plans and strategies for accomplishing the organization's mission for the coming period". While the second definition has more immediate functional approach within the overall plan and views budget as "a master financial document or a blueprint for action that set out the expected contribution from the operation or control of an organization in terms of anticipated cash flows or revenues and expected expenditures over a certain period of time".

It can be observed from these two definitions that a budget essentially is a tool that forms part of the process of an effective management of an organization, especially in planning and control. Budgets induce management to think systematically and plan ahead about the future. Budgets also serve as a device for coordinating the complex operations of the business, and provide a medium for communicating the financial goals of the firm. Other narrow and simple definitions of budget limit its function only as a medium of resource allocation. For instance, Blumentritt (2006) argues that in reality, most organizations viewed budgets as a statement of approved financial and operational resources allocated to each units, activities and investments.

Budgeting: like any other activity, is subject to the interpretation of each practicing organization. Budgeting is the process of preparation, implementation and operation of budgetary decisions into specific projected financial plans for relatively short periods of time. In other words, budgeting is the process of "translating financial resources into human purposes" (Wildavsky, 1986). Budgeting is also viewed as a process of identifying, gathering, summarizing and communicating financial information of an organization's future activities. Blumentritt (2006) argues that budgeting is the process of allocating an organization's available financial resources to its units, activities and investments and to monitor the

performance of managers and employees. He further explained that budgeting processes include a review and study of the prior period's financial results, projections for sales, operating expenses (fixed, variable, and semi-variable) and financing expenses, examination of proposals for capital expenditures, and means of rolling up and rationalizing figures from different functional departments to ensure they meet company-wide profit expectations.

Budgetary Control System: Otley and Merchant (1999) in their book titled as "Accounting for Management Control" enunciates that budgetary control is a systematic and formalized approach for accomplishing the planning, coordination and control responsibilities of management. Merchant and Van der Stede (2003) agreed that budgetary control is a central device of management control. The use of budgets to control a firm's activities is known as budgetary controls (Garrison and Noreen, 1997). Budgetary control is defined by CIMA as "a system of controlling costs and resources which includes comparing actual performance with the budgeted performance and subsequently acting upon the actual results to minimize variance and achieve maximum returns. In essence, budgetary control is purported to ensure that the activities carried out are providing the desired results.

2.2 Requisites for a Successful Budgetary Control Systems

The following requests are required for making a budgetary control system successful (Horngren and Carles, 1999):

1- Clarifying objectives:

Budgets are used to realize the objectives of the business. Thus, the objectives must be clearly identified so that budgets are properly prepared. In absence of clear goals, the budget must be unrealistic.

2- Proper delegation of authority and responsibility:

Budget preparation and control are done at every level of management. Even though budgets are finalized at top level but involvement of person from lower levels of management is essential for success. This necessitates proper delegation of authority and responsibility.

3- Proper communication system:

An efficient system of communication is required for successful budgetary control. The smooth flow of information is necessary for the preparation and implementation of budgets. The upward-downward communication helps in knowing the difficulties in the implementation of budgets.

4- **Budget education:**

The employees should be properly educated about the benefits of budgetary system. They should be educated about their role in the success

of this system. Budgetary control may be merely viewed as a control device by employees but it should also be seen as a tool for improving efficiency.

5- Participation of all employees:

Budgeting is done for every segment of business. It requires the active participation and involvement of all employees. In practice budgets are to be executed at lower level management. Thus, those for whom the budget is framed should be actively associated with their participation and execution. The employees on the basis of their past experience may give more practical and useful suggestions. The success of the organization will depend on the participation of employees.

6- Flexibility:

Flexibility in budgets is required to make them suitable under uncertain and changing business circumstances and environment. Budget is made for future which is always uncertain. Even though budgets are prepared by consideration of future possibilities, but still some occurrences later on may necessitate certain adjustments. Flexibility will make the budget more appropriate and realistic.

2.3 Budgetary Control System Usages :

Budgetary control systems if designed and used properly can provide valuable information about the direction, resources and expectations of the organization. Budgets are considered as an integral part of management control systems that aims at promoting, coordination and communication among subunits within the company, providing a framework for judging performance and finally motivating managers and other employees (Horngren et al, 2005). The idea of multiple usages of budgets in organizations is not new. To serve as an effective tool, budget pursues different tasks such as planning, forecasting, controlling, coordinating, communicating, instructing, authorizing, motivating, delegating, educating, evaluating performance, facilitating decision making and managing subordinates. Hansen and Van der Stede (2004) have explored many sources, either from the perspective of management accounting and control textbooks, academic research and practice, to generate a list of why organizations adopted budgets, particularly on their purpose and roles. They contended that each source creates a slightly different list, and it is difficult to determine the best list.

Emmanuel, Otley and Merchant (1999) in their book on "Accounting for Management Control" explained that budget can act in different usages in organizations. Some possible budgetary usages are:

Means of Forecasting and Planning:

One of the functions served by most budgets is that of forecasting and planning. Forecasting refers to the prediction of events over which the organization has little or no control of while planning is the attempt to

shape the future by altering those uncontrollable factors in the light of available forecasts. Given a set of forecast, the budget model is able to operate in an optimizing role, attempting to ascertain which plan of action will result in the greatest benefit of the organization.

Since planning is at the heart of a budgeting process, by employing the budgeting process diligently, companies can plan extensively on the best course of action to achieve the organization's goals. As a planning aid, budgets allow for the refinement and quantification of the long-term business plan into short-term action plans whereby alternative planning scenarios may be examined and a "what-if" analysis applied. Without the annual budgeting process, the pressures of day-to-day operating problems may tempt managers not to plan for future operations (Drury, 2001). The budgeting process encourages managers to anticipate problems before they arise, and hasty decisions that are made on the spur of the moment, based on expediency rather than reasoned judgment, will be minimized (Drury, 2001).

System for Authorization:

The responsibility of each manager is made amply clear as the budget would usually describe the amount of resources and degree of authority managers need and have to achieve the organization's goals. Thus, budgets serve as a formal authorization for a manager to spend a given amount of money on specific activities. In this respect, budgets are used to ensure that organizational resources is utilized in the most productive and profitable way, to achieve efficiency required for the business operations thereby reducing costs and raising profitability (Drury, 2001). Such a system of authorization must be supported by a suitable responsibility structure adopted by the organization.

Channel for Communication and Coordination:

Evidently, budgets are an important channel of communicating, certain type of information that will enable managers in different parts of the organization to be fully informed of the plan and policies, and constraints, to which the organization is expected to conform. Through the budgeting process, top management communicates its expectations to the lower level management, so that members of the organization may understand these expectations and can coordinate their activities to attain them (Drury, 2001).

In essence, preparation of the budgets facilitates the transfer of vital information among all levels in the organization and thus, level of interaction is more enhanced during the budgeting process. The co-ordination of business activities will be aided through the budgeting process. Considering that all actions of the different parts of the organization are brought together and reconciled into a common plan, the budgeting process assists to bind an organization together towards the

achievement of the organization's goal. Without any guidance, managers may each make their own decisions, believing that they are working in the best interest of the organization (Drury, 2001). Thus, budgeting compels managers to examine the interrelationships and dependency among the different parts of the organization, and in the process, to identify and resolve conflicts.

Motivational Device:

The budget can be a useful device for influencing managerial behavior and motivating managers to perform in line with the organizational objectives (Drury, 2001). A budget provides a standard that under a certain circumstances may motivate managers to strive to achieve the standard. However, it is possible for manager to view the budget as a pressure device in trying to get them to achieve a level of performance that they do not see as achievable. Nevertheless, motivation would be enhanced through the feeling of involvement which participation in the budgeting process can promote. If individuals have actively participated in preparing the budget, and it is used as a tool to assist managers in managing their units, budget can act as a strong motivational device by providing managers with a challenge they strive to achieve (Drury, 2001).

Means of Performance Evaluation and Control:

A budget assists managers in managing and controlling the activities for which they are responsible. The control of business activities may be aided through the comparison and quantitative measurement of actual results against the budget plan. By doing this, managers can ascertain which activities do not conform to the original plan and require their attention. By investigating the reasons for the deviations, managers may be able to identify inefficiencies (Drury, 2001). Hence, appropriate control and corrective action can be taken to remedy the situation (Drury, 2001).

A budget is basically a yardstick against which actual performance is measured and assessed. Thus, a manager’s performance is often evaluated by measuring his or her performance in meeting the budgets. In view of this, budget thus provides a useful means of informing managers of how well they are performing in meeting targets that they have previously helped to set (Drury,2001).

2.4 Budgetary Control System Practices

Different attributes of budgetary practices have been studied in the literature. These attributes consist of the tightness of budgetary practices, the importance attached meeting budgetary targets, the extent of budgetary revision and change and the level of participation in setting budgetary targets. Simons (1987) defines tight budgetary practices as the extent to which meeting tight budget targets is emphasized. Bruggeman and Van der Stede (1993) defined tight budgetary control as the extent of toleration of

unfavorable deviation from budget targets. Amigoni (1978) studied budgetary control practices under the tightness of budgetary practices attributes. Amigoni (1978) argues that budgetary control can be defined as tight when:

1- Targets are imposed and managers must consider them firm commitment.
2- There is low participation in setting budgetary targets.
3- Performance evaluation is oriented to meeting budgetary targets.

On the other hand, Merchant (1981) defines the importance of meeting budgetary targets as:

1. The extent to which budget variances require written explanations.
2. The reaction of superiors to budget variances.
3. The extent to which budgets are linked to extrinsic rewards.

2.5 Types and Classifications of Budgets

The budget represents a plan that a company seeks to achieve. There are many types of budgets with different content. The following provides an overview for different types of budgets under different classifications:

Classification on the Basis of Period

Short term budget: is prepared to cover a duration of one year or less, some times they are prepared on a monthly, quarterly, semiannually or yearly bases. (Thukaram, 2004).

Long Term Budget: covers a period that varies between five to ten year. Long term planning is mainly done by top level management. It is not generally known to middle and low level of management. Long term budgets are prepared only for some sectors, such as capital expenditures, and research and development function (Sharma et al ,1982).

Classification on the Basis of Flexibility:

Fixed Budget: is designed to be consistent and does not change regardless of the actual level of activity achieved (Dauglas *et al.*,2005). Fixed budget is a real measure to judge the efficiency of performance by comparing actual performance with planned or targeted performance. However, fixed budgets are considered of limited usefulness for the purposes of control and evaluation of performance due to the fixed state and their inability to respond to the uncertainties of business internal and external environments. Continuous and unpredictable changes in business conditions causes significant deviations between the actual performance and planned performance which require continuous reviews and adjustments to budgetary targets (Edward *et al.*,1991).

Flexible budget: requires conducting budgetary reviews and adjustments during the year to reflect unpredictable changes in business environments such as adjusting sales volume and other cost driver activities. The flexible budget is identical to the master budget in format, but managers may prepare it for any level of activities, and manager can

use the flexible budget to prepare a new budget based on the new cost driver level (Horngren et al.,1999)

Classification on the Basis of Coverage:

Operational Budget: is a budget that specializes in planning and operating activities of the organization in terms of available resources, uses for these resources and controlling operating activities in order to exploit in an optimal way. Operational budgets are prepared based on a short-term or a long-term basis and also can be tailored on an ongoing or the fixed basis. Operating budget includes sales budget, production budget, inventory budget, raw material budget, direct labor budget, overhead cost budget, procurement budget, administrative expenses budget and marketing expenses budget (Al-hares, 2004).

Master Budget: is a comprehensive financial plan, that integrates the operating budgets of all activities and departments in the organization. This budget is comprised of budgeted income statement, budgeted balance sheet and budgeted cash flow statement. These financial statements summarizes the performance and financial position of the organization in the budgeted period or year (Horngren et al,1999).

Capital Budget: is related to capital investment and planning manner of this investment (Alhares,2004). According to Pandey (1999) capital budgeting is 'the firm's decision' to invest its current funds most efficiently in long-term activities in anticipation of an expected flow of the future benefits over a series of years .

Classification on the Basis of Participation (Thukaram, 2004)

Top-down Budget: Also known as "Imposed Budget", this approach to budgeting begins with upper level management establishing parameters under which the budget is to be prepared. Lower-level managers have very little, if any, input into the determination of the budget amount and setting the overall goals of the organization. The lower-level units involvement in the process is essentially reduced to doing the basic budget calculations and adhering to the directives of top management. One disadvantage of the top-down approach is that lower-level managers may view the budget as a dictatorial standard. Resentment can be fostered in such an environment. Further, such budgets can sometimes provide ethical challenges, as lower-level managers may find themselves put in a position of ever-reaching to attain unrealistic targets for their units. On the positive side, top-down budgets can set a tone for the organization. Top management can ensure that the budgets are aligned with the strategic plans. The budgeting process can be completed faster as less time is needed for budget administration.

Bottom-up Budget: is also known as "Participatory Budget" mainly due to the nature and degree of lower level management involvement in the formulation of budget. Top management may initiate the budget process with general budget guidelines, but essentially bottom-up budgeting begins

at the operational level. The operational units drive the development of budgets for their units. These individual budgets are then grouped and regrouped to form a divisional budget with mid-level executives adding their input along the way. Eventually top management and the budget committee will receive the overall plan. The budget committee reviewed the budget components for consistency and coordination. This type of budgeting requires more time to move through the process and complete the budget, but ensures buy-in and commitment at all levels of the company.

2.6 Traditional Incremental Budgeting

According to Neely *et al.,* (2001), the traditional incremental budgeting model was developed in the 1920s to help financial managers control costs in large organizations. Traditional planning and budgeting is viewed as the periodic process by which the organization tends to define their forward operational expenditures and forecasted income. It covers a one year period and presents forecasts that do not change during the budget cycle. Traditionally, budgets reflect historical data and are set after managers engage in a lengthy process of trying to establish what that data indicate about the future. This process is usually protracted, often due to managers' self interested wrangling (Van Mourik, 2006). Traditional budgeting allows managers to build next year's budget with last year's expenditures and add a percent for inflation, making them justify only those incremental increases while automatically accepting current levels of spending and achieving without question.

According to Blumentritt (2006) even though the traditional budgets have evolved from its original form in the 1920s and has helped growing businesses manage capital resources and plan cash requirements, it is widely believed that setting targets and controlling and evaluating performance using budgets is fundamentally flawed because it directs managerial behavior towards achieving predetermined financial targets rather than harnessing the energy of people at all levels towards continuously improving competitive strategies and customer-oriented processes. Most organizations use a traditional budget because they are easy to put together and simplify coordination of budget assumptions across different departments.

In response to the criticisms of traditional planning and budgeting, commentators among academicians and practitioners offered a variety of budgeting methods for better budgeting. There are four principal approaches and techniques that can aid improved budgeting and planning process including zero- based budgeting, activity- based budgeting and management, value- based budgeting and management, and rolling

budgets and forecast. (For further elaboration on these approaches refer to (Banovic, 2005, P 55-67).

2.7 Business Strategy: Definition and Typologies

Business strategy, defined as how a business chooses to compete within its particular industry (Langfield-Smith, 1997), it has been the focus of much of the research on MCS as opposed to corporate or operational strategy (Chenhall, 2003). The strategy concept has been extensively presented and debated in the literature. Contingency empirical research has widely adopted different 'typologies' classifications of strategy. In particular the schemes of Miles & Snow (1978), Porter (1980, 1985) and Gupta & Govindarajan (1984) have mainly attracted the attention when referring to business-unit strategy. In their original version, the three classifications perform unique aspects and represent different business strategy dimensions. Also Langfield-Smith (1997) underlines that each strategy classification holds different characteristics related to scope and focus (in particular defender/prospector distinction present a broader scope than the others). Each classification will be now briefly presented and discussed with respect to the concerning strategic element.

Miles & Snow (1978) consider that management has to face three types of problems: the entrepreneurial (the strategic management of product and markets), the technological (the production and distribution of products) and the administrative one (the organization to support the entrepreneurial and technical decisions). When these problems are solved in a successful manner, a stable strategic pattern is identified. Within this path, there are three typologies according to their rate of change in product or market: **Prospectors** mainly compete through product innovation, offer a wide product range and are considered pioneer in product and market area. Marketing, Research and Development are the principal functions in these organizations. **Defenders**, on the other hand, operate in a relatively stable environment and offer a narrow product range. They focus on efficiency, so they prefer production and engineering functions. **Analyzers** combine features of the previous typologies.

Gupta & Govindarajan (1984) adopt a life-cycle approach using the concept of strategic mission (or portfolio strategy). According to life-cycle stage in which the market and product match each other, the company will prefer one mission or another one. Gupta & Govindarajan describe four strategic missions depending on the balance between the objectives of market share growth and short-run profit maximization. Build strategy aims to increase market share and competitive position, even at the expense of short term earnings and cash flow. **Harvest strategy** aims at maximizing short term earnings and cash flow rather than improving

market share. **Hold strategy** finds itself in the middle between the previous configurations and **divest strategy** implies the choice to end the activity.

Porter (1980, 1985) distinguishes three generic strategies that allow the company to achieve a sustainable competitive advantage. **Low cost strategy** implies to obtain the lowest cost relative to the competitors; it is possible by exploiting the economies of scale and scope and reaching a superior technology that grant a low cost. **The differentiation strategy** focuses on providing products that are perceived to be unique by the customers. This is possible offering superior quality, customer service, brand image and so on. The sources of this advantage could be: brand loyalty, product design, after sale services and retail facilities. **The focus strategy** implies to compete in a specific market segment through either low cost leadership or differentiation.

Summing-up, each typology presents its own characteristics. Prospector/ Defender regard the rate of change in product and markets. Build/ Harvest concerns the strategic mission. Differentiation/Low cost attain to the way the company decide to compete in the market. Table (2.1) provides a schematic representation for business strategy typologies.

Table (2.1)
Typologies of Business Strategy

Author	Typology Extremes	Strategic Dimension
Miles & Snow (1978)	Prospector / Defender	Strategic pattern
Gupta & Govindarajan (1984)	Build / Harvest	Strategic mission / Portfolio strategy
Porter (1980, 1985)	Differentiation /Low cost	Competitive strategy / Strategic position

For comparability purposes with the findings of prior studies, the current study will use Porter's generic strategies to capture business strategy as this typology has been investigated in most management control contingency research.

Porter's Generic Strategies

If the primary determinant of a firm's profitability is the attractiveness of the industry in which it operates, an important secondary determinant due to its position within that industry. Even though an industry may have below-average profitability, a firm that is optimally positioned can generate superior returns (Porter,1985). Michael Porter has argued that a firm's strengths ultimately fall into one of two headings: cost advantage and differentiation. These strategies are applied at the business unit level.

Low Cost Strategy

This generic strategy calls for being the low cost producer in an industry for a given level of quality. The firm sells its products either at average industry prices to earn a profit higher than that of rivals, or below the average industry prices to again market share. In the event of a price war, the firm can maintain some profitability while the competition suffers losses. Even without a price war, as the industry matures and prices decline, the firms that can produce more cheaply will remain profitable for longer periods of time. The low cost strategy usually targets abroad market (porter,1985). Some of the ways that firms acquire cost advantage are by improving process efficiencies, gaining unique access to a large source of lower cost materials, making optimal outsourcing and vertical integration decisions, or avoiding some costs altogether. If competing firms are unable to lower their costs by a similar amount, the firms may be able to sustain competitive advantage based on cost leadership. Firms that succeed in cost leadership often have the following internal strengths (Parnell,2005):

1. Access to the capital required to make significant investment in production assets.
2. Skill in designing products for efficient manufacturing , for example, having a small component count to shorten the assembly process.
3. High level of expertise in manufacturing process engineering.
4. Efficient distribution channels.

Differentiation Strategy

A differentiation strategy calls for the development of a product on service that offers unique attributes that are valued by customers and that customers perceive to be better and different from the products of the competition . The value added by the uniqueness of the product may allow the firms to charge a premium price for it . The firm hopes that the higher price the more will be to cover the extra costs incurred in offering the unique product. Because of the product’s unique attributes , if suppliers increase their prices the firm may be able to pass along the costs to its customers who cannot find alternate products easily(porter,1980).

Firms that succeed in a differentiation strategy often have the following internal strengths(Parnell, 2005):

1. Access to leading scientific research .
2. Highly skilled and creative product development team.
3. Strong sales team with the ability to successfully communicate the perceived strengths of the product.
4. Corporate reputation for quality and innovation.

2.8 Previous Studies

Studies pertaining to strategy and Simons' levers of control systems:

Simons (1987) investigated the link between business strategy and control systems, through survey research on 76 manufacturing Canadian firms confirmed that high performing Prospector firms seem to emphasize on forecast data in control systems, frequent reporting and setting tight budgeted goals. Meanwhile, Defenders, particularly large ones, are likely to use their control systems less intensively than Prospectors and focus on bonus remuneration based on the achievement of budgeted targets. Although Simons (1987b) said that his result was in accordance with the previous researches, particularly those of Porter (1980), Langfield- Smith (1997) argued that "(Simons's) findings are not consistent with (these authors)" (p.218). For instance, Miles & Snow (1978) characterized control systems of defenders are likely to be centralized, very detailed, focusing on problem solving (i.e. tight budget and intensive use); while those of prospectors may focus more on problem finding, result oriented and be decentralized.

Simons (1988) refined the above-mentioned result by investigating the relationship (1) between tight budget goals and firm performance, and (2) between tight budget and competitive strategy. Using survey method with a sample of 86 Canadian firms from 19 industries, the result showed a positive relationship between tight budget and firm performance, but a non-significant relationship between budget participation and firm performance. While Prospectors reported tighter budgets than Defenders, the latter reported a strong positive correlation between budget tightness and budget participation.

Simons (1990) further studied "How" competing firms organize their management control systems at top management levels and why top managers choose to personally monitor certain management control systems and to delegate other aspects to subordinates. By conducting 70 in-depth interviews with top managers of sixteen Canadian firms, He found out that: "All large, complex organizations have similar types of management control systems, but there are distinct differences in the way that management control systems are used at top management levels in different firms". Simons (1990) proposed an interactive management control process model, which can be used to manage emergent strategy.

Simons (1991) investigated how top managers in competitive markets decide which of their control systems to use interactively. After carrying out 90 two-hour interviews with top, policy-making managers of 19 US health care product industry companies, Simons advocated that top management vision is the essential ingredient for interactive control systems. Three factors influencing the design and the choice of interactive control systems are "Technological dependence", Complexity of value

chain", and "Ability of competitors to respond to product market initiatives" which is named later as "Ease of tactical response".

Simons (1994) added the fourth factor "Regulation". And continued broadening his research with a new research question: "How do top managers use formal control systems to formulate and implement new business strategies?" After 18 month longitudinal study accompanied by semi-structured interviews with ten newly-appointed top managers, Simons showed two different processes by which strategic turnaround managers and strategic evolution ones have used at least two levers, diagnostic control and interactive control. But similarly, senior managers in both clusters diagnostically use all control systems in the first year and then selected one interactive control system in the second year, once intended strategy was well carried out.

Studies pertaining to Strategy and budgetary control systems:

Govindarajan (1988) explored the relationship between the implementation of business strategy and three administrative mechanisms. The three administrative mechanisms are decentralization (an organizational structure variable), budget evaluative style (a control system variable) and managers hocus of control (a managerial characteristics variable). Data was collected by questionnaires from 121 manufacturing business units at 24 large US corporations. Govindarajan used porters competitive strategy typology (low cost and differentiation strategies) to operationalised business strategy. Budget evaluative style was measured according to the amount of emphasis placed on meeting budgetary goals when evaluating the general managers performance.

Building on the established linkages between competitive strategies and environmental uncertainty, and between uncertainty and performance evaluation, Govindarajan used uncertainty as the unifying concept between strategy and administrative mechanisms fit. He argues that firms pursuing a differentiation strategy face greater uncertainty than firms pursuing a low cost strategy. High uncertainty implies that it is difficult to predict future events, and arrive at a priori budget targets that can serve as satisfactory standards for performance evaluation. Moreover, uncertainty implies that cause-effect knowledge is incomplete for decision-markers.

Thus, subjective approaches towards evaluating managerial performance are expected since financial measures (e.g., budgets) alone are not enough to reflect managerial performance. From these arguments, Govindarajan hypothesized that for SBUs employing a strategy of differentiation, de-emphasizing budgetary goals during performance evaluations, is likely to be associated with high performance. Conversely, emphasizing budgetary goals is likely to be associated with high performance in SBUs employing low cost strategy. In addition, two other bivariate hypotheses related to decentralization and locus of control, and

one multivariate hypothesis related to the interaction effect of strategy and the three administrative mechanisms together on performance were tested after controlling for SBU and corporate size.

The results of this study suggested that the proper alignment of the three administrative mechanisms with the competitive strategy resulted in superior performance. Interestingly, this multivariate fit was significant among differentiation SBUs but not significant among low cost units. Unfortunately, Govindarajan provided no explanation for this difference between the two strategies.

Chung(1996) examined the relationship between strategy and attributes of MCS, using 110 questionnaires sent to a sample of large and medium-sized firms operating in the electrical and electronics industry. Miles and Snow typology of prospector and defenders were used. The MCS attributes investigated in this study include tightness of budget control; participation; control system changeability; external scanning and forecast data. The result confirmed that the firms place different emphases on MCS attributes, according to the type of strategic typology adapted, thereby providing support for findings of Simons (1987). "Simons found that prospectors use their accounting controls more intensively".

Abernethy and Brownell (1999) investigated the moderating role of style of budget use on the relation between strategic change and performance. Based on the recognition of accounting as a vehicle for interaction and learning (Burchell *et al.*, 1980) the researchers hypothesize a reduction of disruptive performance effects caused by organizations change if budgeting is used interactively. The theoretical assumption is that when people interact by discussing budgets, they create a shared vision which in turn can improve performance. Using a semi-structured interviews with a sample of 63 Australian public hospitals. The study hypothesized that organizations with a greater emphasis on interactive use of budgets performs better. The construct of strategic change is operationalised using the definitions of strategy introduced by Miles and Snow (1978). Style of budget defined according to Simons (1990) budget system use classification.

The analysis reveals that the style of budget use is a moderating factor of the relation between strategic change and performance. This leads to the conclusion that "the relation between strategic change and performance is more negative when the style of budget use is interactive compared to when it is diagnostic".

Al-Dahiyat (2003) examined the relationship between perceived environment uncertainty, business strategy, organizational structure and various attribute of MCS simultaneously. The study built on works of Simons(1987) and Chenhall and Morris (1986) in term of developing a wider and comprehensive view of MCS design. Seven MCS attributes have

been investigated in this study including budgetary practices and budgetary usages. A cross-sectional survey employing a questionnaire method of data collection was adapted. A total of 274 usable responses were received representing a responses rate of 28%. The structural dimension of formalization was found to have significant positive relationships with many of the MCS attributes and also mediated the relationship between differentiation strategy and MCS attributes of budgetary importance, cost control systems and non-financial performance measures.

Dahlan, et al (2007) examined the relationship between tight budgetary control and firms' performance. Additionally, the effects of two contingent factors, namely, business strategy and external environment are investigated. Tight budgetary control was measured using an instrument developed by Van der Stede (2001) as a means to re-validate the instrument. Using a survey questionnaires with a sample of 165 top management staff of manufacturing firms in Indonesia listed on Jakarta Stock Exchange. The construct of strategy is operationalised using the definitions of strategy introduced by Miles and Snow (1978). The results indicate that prospector strategy has a positive influence on the relationship between tight budgetary control and firms' performance. However, defender strategy and external environment do not appear to moderate the relationship between tight budgetary control and firms' performance. This study has implications for managers and may assist in the understanding on budgetary control practices in Asian countries.

Shih & Yong (2009): investigated seven MCS features and their relationship with strategy. Using a questionnaire survey methodology with a sample of 49 large Singaporean firms listed on the Singapore Stock Exchange. Strategy was measured using Miles and Snow's Prospector/ Defender typology. Seven MCS attributes have been investigated in this study including tightness of budgetary control; extent of use of non-financial criteria and subjective assessment for performance evaluation. The analysis reveals that the Prospector-like firms tend to adopt a long-term perspective in decision making and practice decentralized control to a greater extent than other firms. Also, the more intensely a firm pursues the Prospector-like strategy, the less uncertain it is about its financial results, and that the tightness of budgetary control is negatively correlated with financial results uncertainty.

Jung and min-Choe (2010) investigated the relationships between the importance of four operational budget reasons and the intensity of the cost leader/differentiator strategy in business units. The study considers this relationship for both annual budgets and rolling forecasts. Using data collected from a survey of 331 medium to large Australian business units. The results indicate that more intensive adopters of differentiator strategies appear to regard annual budgets and rolling forecasts as more important for

both operational planning and performance evaluation reasons - this represented a broader range of reasons than that observed for cost leader business units, which have been traditionally argued to be more sensitive to formal financial controls. The results also indicate that rolling forecasts do not inhibit the role of an annual budget, but rather accentuates the relationship between the importance of the annual budget and the intensity of a business units' strategy pursued. This effect is most pronounced for differentiator business units.

Other Studies:

Bains and Langfield-Smith (2003) focus on the interplay between strategy and MCS by studying the impact of environmental change in the form of intensified competition on management accounting practices. Intensified competition is expected to lead to more organizations focusing on a differentiation strategy. The theoretical assumption is that when markets become crowded organizations have to distinguish themselves from others by providing customer - oriented aspects in order to sell. The anticipation is that a change in strategic focus influences management accounting practices. and efficiency- based performance measures are expected to lose importance over non- financial information when changing towards a differentiation strategy.

Organizational design and manufacturing technologies are expected to change. The shift towards a differentiation strategy is expected to increase organizational performance. Analyzing data provides support for the hypotheses. A positive relation between a more competitive environment and an increased emphasized on differentiation strategy is identified. There was no support for the hypotheses. That a more competitive environment results in greater use of team-based structures or increased use of advanced manufacturing technology.

The hypotheses that an increased emphasis on a differentiation strategy leads to changes in Organizational design is supported for all dimensions. The hypothesized positive impact of increased use of advanced manufacturing technology on Organizational change is not supported. For the increased use of advanced management accounting practices and greater use of team-based structures no significant positive impact were found. Increased use of advanced management accounting practices and greater use of team-based structures are identified as reasons for greater reliance on non-financial management accounting information.

Using a survey questionnaires with a sample of 141manufacturing organizations operating in Australia. The construct of strategic is operationalised into two classifications, product differentiation (quality or responsive) and low cost from porters (1980) strategy typology.

The results support the hypothesis that a greater emphasis on non-financial management accounting information results in improved performance. The

authors conclude that the strongest link exists between the change in strategy and change in management accounting practices.

Naranjo (2004) examined the effect of accounting information system (AIS) design on the performance of organizations pursuing different strategic priorities. The alignment between sophisticated accounting information systems and organizational strategy is analyzed. The enabling effect of the accounting information system on performance is also examined. Sophisticated AIS Design was measured by a modified version of the scale developed by Chenhall and Morris (1986). Using a mail questionnaires with a sample of 112 CEOs in 218 hospitals in Spain. The construct of operationalised of strategy is Prospectors using the definitions of strategy introduced by Miles and Snow (1978). The findings provide support of an indirect effect of sophisticated accounting information system on performance, acting through a prospector strategy.

Auzair and Langfield-Smith (2005) examined the impact of service process type, business strategy and life cycle stage on MCSs. The Dimensions of MCSs studied were action versus result control, formal versus informal control, tight versus loose control, restricated versus flexible control and impersonal versus interpersonal control. Dimensions of strategy were depicted by low cost strategy and differentiation strategy. A high emphasis on a low cost strategy and a mature stage of life cycle are hypothesized to lead to forms of bureaucratic management control. While differentiation strategy and a professional service process type are expected to lead to forms of non- bureaucratic management control.

The hypotheses are based on the assumption that a certain strategy is always linked to management control with a fixed set of characteristic. The argument is furthermore grounded in the notion that not all companies apply management control according to implemented strategy. However organizations that do match management control to strategy have higher performance (Chenhall and Langfield- Smith, 1998).

Using mail questionnaires with a sample of 121 Australian service organizations. The main findings indicate that low cost strategy requires more bureaucratic management control than differentiation strategy. Also organizations in the mature stage of their life cycle apply more bureaucratic management control than organizations in the growth stage of their life cycle.

Table (2.2)
provides a summary of the contingency studies reviewed in this chapter and their main finding.

Table 2.2: Summary of Previous Studies

Studies Pertaining to Strategy and Simons's Levers of Control Systems

Researcher	Country and sample	Strategy	Others	Management accounting systems	Objectives and results
Simons (1987)	(Canada) 76 manufactur-ing Canadian firms	x	Performance	Tight budgets	This study examined the relationship between strategy and control systems . It was found that the prospector firms seem to emphasize on forecast data in control systems, frequent reporting and setting tight budgeted goals. Meanwhile, Defenders, particularly large ones, are likely to use their control systems less intensively than Prospectors and focus on bonus remuneration based on the achievement of budgeted targets.
Simons (1988)	(Canada) 86 Canadian firms from 19 industries	x	Performance	Tight budgets	This study examined the relationship (1) between tight budget goals and firm performance, and (2) between tight budget and competitive strategy. It was found that the result showed a positive relationship between tight budget and firm performance, but a non-significant relationship between budget participation and firm performance. While Prospectors reported tighter budgets than Defenders, the latter reported a strong positive correlation between budget tightness and budget participation.
Simons (1990)	(Canada) interviews with top managers of 16 firms	x	Organizational learning, limited attention of managers	Interactive management control	This study examined how competing firms organize their management control systems at top management levels and why top managers choose to personally monitor certain management control systems and to delegate other aspects to subordinates. It was found that all large complex organizations have similar types of management control systems. There are distinct differences in the way that management control systems are used at top management levels in different firms.
Simons (1991)	(U.S) interviews with top, managers of industry companies		Technological dependence, Complexity of value chain, Ability of competitors to respond to product market initiatives	Interactively control systems	This study examines how top managers in competitive markets decide which of their control systems to use interactively, three factors influencing the design and the choice of interactive control systems are "Technological dependence", Complexity of value chain", and "Ability of competitors to respond to product market initiatives. It was found that top management vision is the essential ingredient for interactive control systems.

Researcher	Country and sample	Strategy	Others	Management accounting systems	Objectives and results
Simons (1994)	(USA) interviews with ten newly-appointed top managers	x	Technological dependence, Complexity of value chain, Ability of competitors to respond to product market initiatives, Regulation	Formal control systems	This study examined how do top managers use formal control systems to formulate and implement new business strategies, four factors influencing the design and the choice of interactive control systems are "Technological dependence", Complexity of value chain", and "Ability of competitors to respond to product market initiatives, Regulation. It was found that two different processes by which strategic turnaround managers and strategic evolution ones have used at least two levers, diagnostic control and interactive control. But similarly, senior managers in both clusters diagnostically use all control systems in the first year and then selected one interactive control system in the second year

Studies Pertaining to Strategy and Budgetary Control Systems

Researcher	Country and sample	Strategy	Others	Management accounting systems	Objectives and results
Govindarajan (1988)	(USA) 53 manufacturing companies	x	Decentralization	Budget evaluation style	This study examined the relationship between strategy and three control system variables, budget evaluation, decentralization and locus of control. It found that the alignment of the three control system variables with strategy increased SBU performance. also, it was found that a greater emphasis on budgetary control was associated with higher performance in firms pursing low cost strategy**.**
Chung (1996)	(Singapore) 49 medium to large private sector	x	Effectiveness	Tightness of budget control; Participation in planning; Control system changeability	This study examined of the relationship between strategy and attributes of MCS, It was found that management control systems are related to the business strategies pursued by firms. The findings are reconciled with prior results and possible reasons for inconsistencies are given. thereby providing support for the findings of Simons (1987).
Abernethy and Brownell (1999)	(Australia) 63 public hospital	x	Performance	Budget evaluation style	This study examined the moderating role of style of budget use on the relation between strategic change and performance. It was found that the style of budget use in a moderating factor of the relation between strategic change and performance. This leads to the conclusion that "the relation between strategic change and performance is more negative when the style of budget use is interactive compared to when it is diagnostic".

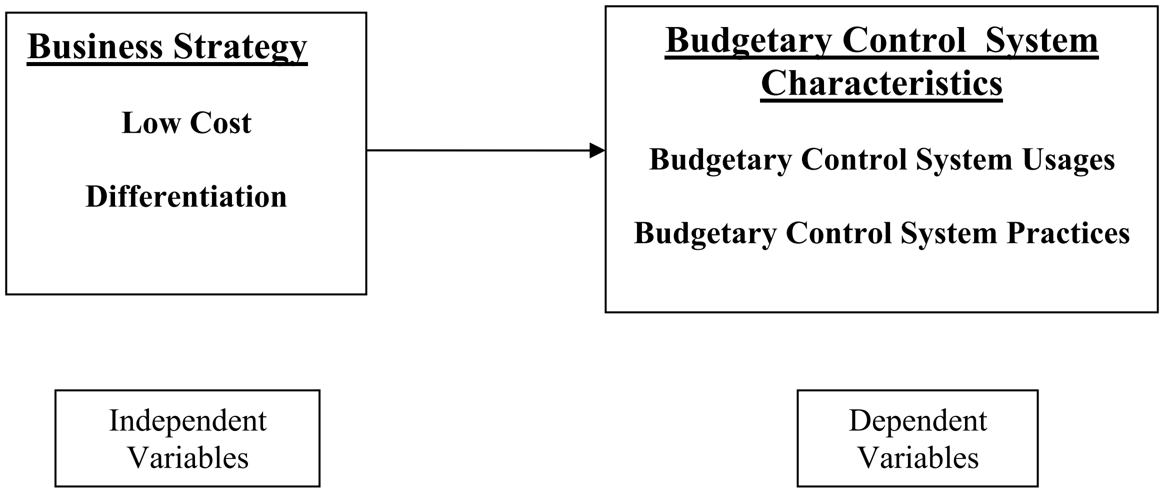
Other Studies

Researcher	Country and sample	Strategy	Others	Management accounting systems	Objectives and results
Baines & Langfield-Smith (2003)	(Australia) General managers of 700business units of larger firms	x	Organizational design, advanced manufacturing technology, (PEU)	Management accounting practices	This study examined the relationships between strategy and MCS by studying the impact of environment change in the form of intensified competition on management accounting practices. It was found that the results support the hypothesis that a greater emphasis on non-financial management accounting information results in improved performance. The authors conclude that the strongest link exists between the change in strategy and change in management accounting practices.
Naranjo (2004)	(Spain) 112CEOs in 218 hospitals	x		Accounting information system	This study examined the effect of accounting information system design on the performance of organizations pursuing different strategic priorities. It was found that the results provide support of an indirect effect of sophisticated accounting information system on performance, acting through a prospector strategy.
Auzair and Langfield-Smith (2005)	(Australia) 121service organizations	x	Stage in the organizational life cycle	Design of management control systems	This study to examined the impact of service process type, business strategy and life cycle stage on MCSs. It was found that the results provide support for three conclusions : (1) with regard to the service process type results indicated that mass service organizations apply more bureaucratic management control than professional service organizations, (2) cost leader apply more bureaucratic management control than differentiators, and (3) for the life cycle stage the results indicated that organizations in the mature stage of their life cycle apply more bureaucratic management control than organizations in the growth stage of their life cycle.

2.9 The Study Theoretical Model and Hypotheses Development

The study model is presented in Figure 2.1. It consists of two main variables:
business strategies and budgetary control system.

Figure 2.1: Study Theoretical Model



2.9.1 Variable Theoretical and Operational Definitions

Business strategy:

It was indicated in section 2.6 that business strategy refers to ability of business unit to compete in its market to accomplish competitive advantage compared to its competitors (Porter,1980). Porter's generic strategies is used to capture business strategy: low cost and differentiation strategies. Low cost strategy focuses on being the low cost producer of a narrow product range. In contrast, differentiation strategy focuses on being first-to-market with a verity of innovative products or services (Porter, 1980). The study adopts Govindarajans (1988) instrument to measure the dimensions of business strategy. It requires respondents to position their products relative to those leading competitors in different areas including: product selling price, manufacturing costs, research and development expenditure, product quality, brand image, and product features.

Budgetary Control System Characteristics

The following attribute of budgetary control system characteristics are incorporated in the research model :

Budgetary Control System Usages: refers to the extent that budgets are used for different purposes. Thus, budgets can be used for

planning and forecasting annual operations, Co-ordinating activities, communicating plans, motivating managers, evaluating performance and controlling activities. From Collins *et al* (1997) instrument the following items will be used to capture budgetary usage: The extent of using budgets for planning purposes, the extent of using budgets for coordinating activities, the extent of using budgets for communicating plans, The extent of using budgets for motivating managers, The extent of using budgets for controlling and monitoring, and the extent of using budgets for evaluating performance.

Moreover, Simons (1990) argues that budgets can be used diagnostically or interactively. Diagnostic usage of budget relates to the traditional usage of budget for motivating and evaluating managers and monitoring and controlling activities. While Interactive usage of budget relates to using budgets actively as tool for planning, coordinating and communicating strategic priorities and plans (Abrenethy and Brownell,1999).

Budgetary Control System Practices: includes the following dimensions: the tightness of budgetary practices; the importance attached to meeting budgetary targets; the extent of budgetary revision and change during the year and the level of participation in setting budgetary targets. Adapted from Simons (1987) instrument, the following items used to capture budgetary practices: The frequency of changing budgetary targets, the formality of changing budgetary targets, the extent to which budget revisions are not allowed, the importance attached to meeting budgetary target, the extent to which variances need written explanation, the extent of participation in setting the budgets, the extent of reliance on budgets as a control tool, the extent of tolerance of budget variances, and the extent of difficulty of budgetary targets.

2.9.2 Hypotheses Development and Formulation:

The literature indicates that the practices and usage of budgets depend to a large extent on the ability to plan with a high degree of certainty. Different strategies imply different degrees of uncertainty and different degrees of uncertainty require different control and budgeting practices. Plans stated either in the form of budgets or specified procedures are a means of coordinating activities within organizations. Anthony and Govindarajan (2001) argue that budgets in organizations applying differentiation strategy are likely to be less appropriate for control and performance evaluation because they are subject to continuous revisions and alterations during the year. More emphasis is given in this situation to using budgets for short-term planning and coordination rather than for control and performance evaluation purposes. Thus, it is more difficult to regard budget targets as organization commitments and it may thus be

inappropriate to consider unfavorable budget variances as clear indicators of poor performance. In such situations more emphasis is given to using budgets as a forecasting and short-term planning tool rather than as a tool for evaluation and control.

Conversely, narrow scope information (i.e. financial, historical and internal information) is likely to be sufficient for control in organizations applying low cost strategy. Thus, it is expected that these organizations will place greater emphasis on traditional accounting control systems (such as budgetary performance measures) and also attach higher importance to the achievement of budget targets by regarding them as organization commitments.

However, contingency empirical studies concerned with budgetary practices and usage have reported contradictory findings, and have not provided clear insights into the real relationship between strategy and budgetary systems. Simons (1987), for instance, found that organizations following differentiation strategy attach a great deal of importance to tight budgetary control (defined as importance attached to meeting tight budgetary targets), whereas a negative relationship between performance and tight budgetary control were found in organizations following low cost strategy. The opposite results were reported in Govindarajan's (1988) study.

In organizations pursuing a differentiation strategy, a low emphasis on meeting budget targets was associated with higher performance. Conversely, greater emphasis on budgetary control was associated with higher performance in organizations pursuing low cost strategy. Accordingly, budgets are used interactively rather than diagnostically in organizations pursuing a differentiation strategy. Conversely, diagnostic use of budgets (i.e. the use of budgets for performance evaluation and controlling behavior) is likely to be more effective in organizations pursuing a low cost strategy (Simons, 1995).

The above discussion suggests that budgets are used in frequent revisions and less emphasis on meeting budgetary targets in organizations pursuing a differentiation strategy. In contrast, budgets are used in less frequent revisions and more emphasis on meeting budgetary targets in organizations pursuing low cost strategy. The above discussion also suggests that organizations pursuing a differentiation strategy will place greater emphasis on using budgets for planning and coordination purposes rather than for motivation, controlling and performance evaluation purposes. In contrast, the reverse situation would appear to apply to organizations pursuing low cost strategy. Accordingly, it is hypothesized that:

Budgetary Control System Usages:

H_{A1}: Low cost strategy has a significant negative impact on interactive

budgetary usage (using budgets for planning, coordination and communication).

H_{A2}: Differentiation strategy has a significant positive impact on interactive budgetary usage (using budgets for planning, coordination and communication).

H_{A3}: Low cost strategy has a significant positive impact on diagnostic budgetary usage (using budgets for motivation, performance evaluation and control)

H_{A4}: Differentiation strategy has a significant negative impact on diagnostic budgetary usage (using budgets for motivation, performance evaluation and control).

Budgetary Control System Practices:

H_{A5}: Low cost strategy has a significant positive impact on tightness of budgetary revision.

H_{A6}: Differentiation strategy has a significant negative impact on tightness of budgetary revision

H_{A7}: Low cost strategy has a significant positive impact on importance of meeting budgetary targets

H_{A8}: Differentiation strategy has a significant negative impact on importance of meeting budgetary targets.

Chapter Three
Design and Methodology

This chapter outlines the methods and procedures used in this study. It covers the research design, research population and sample , development and construction of questionnaires, question types and format, questionnaire pre-testing procedures, survey administration and response profile characteristics of responding companies, and statistical analysis and techniques used.

3.1 Research Design and Methodology

There are different types of research methodology available for researchers to conduct their studies (survey, case study, experiment). The choice of any particular methodology depends on research philosophy that a researcher follows to conduct his research (Cresswell ,1994). The current study adopts a survey methodology and utilizes questionnaires for data collection. Using this method for data collection has many positive aspects such as obtaining data from a large number of respondents and provides respondents with sufficient time, comfort and freedom to answer in order to avoid respondents' bias. In addition, survey methodology is considered suitable for collecting a large quantity of data at lower cost and less time.

3.2 The Research Population and Sample

Research population is the total collection of elements on which the measurement is being taken (Cooper and Schendler,2001).The population of this study is defined as all manufacturing companies listed in Amman stock exchange. The sampling frame was obtained from Jordan Investment Board (www.jordaninvestment.com) and consists of 81 manufacturing companies.

Manufacturing companies are chosen for the sake of comparability with other studies that investigated only manufacturing companies. In addition, including other non manufacturing companies, such as services, is considered not appropriate because it would complicate questionnaire design taking into consideration that companies operating in non manufacturing industries may have different characteristics and needs for controlling and budgeting.

The units of analysis are business units thus, a questionnaire was sent electronically to financial managers in all manufacturing companies listed in Amman Stock Exchange.

3.3 Questionnaire Construction

The questionnaire employed in this study consisted of five pages, including the front and back pages and covers (40) items categorized under

two main sections. The first section covered the budgetary control system characteristics (i.e. practices and usages) while the second section covered the business strategy and additional data regarding respondents characteristics.

3.4 Question Types and Formats

Two types of questions are available for constructing questionnaires, the open-ended and close-ended type questions (Saunders *et al* ,2003). An open-ended question is one in which respondents formulate their own answers while close-ended question is one in which a number of alternative answer are provided for respondent to choose from. In this research, both types of questions were used in constructing the questionnaire. Closed-ended type questions were mainly used to measure research variables. In addition, open questions were used in (Section B, Parts 2 and 3) in order to obtain specific and short answers about the business unit size and of operation, and at the end of the questionnaire to give the respondents the opportunity to express their specific views or add additional insights or comments.

Due to the comprehensiveness of the questionnaire and the complexity of research variables, two types of closed questions were used in the questionnaire, these include category questions and scale questions. According to Saunders *et al* (2003), category questions are designed so that each respondents answers can fit only one or more category. This type of questions was used in Section A - Part 2 where respondents are given two statements and asked to select the statement that represented the role of management in budget participation. The same type of questions was also used in (Section A, part 4) which is concerned with determining the type or form of budgets that applies in the company. The second type of closed-question is rating or scale questions (5-point Likert scale). According to Hussey and Hussey (1997) rating scale questions have the advantage of listing different statements that do not require much space and are quicker for respondents to complete and for researchers to code. This type of questions was used throughout this questionnaire to measure the main research variables, budgetary control system characteristics (i.e. practices and usages) and business strategy.

3.5 Questionnaire Pre-Testing Procedures

Although considerable effort was made to produce a well designed questionnaire, it was necessary to pre-test the questionnaire before distributing it. Pre-testing the questionnaire is vitally important to ensure that the final version contains clear and understandable questions and to establish face validity and to improve format and scales (Saunders et al 2001). Three groups were consulted for testing and refining the

questionnaire including three MBA students at Mutah University, four academic staff members and one financial managers representing targeted respondents. They were asked to comment on the format, wording and appropriateness of questions, and to suggest any alterations or items that they believed should be included or deleted in the instrument. Each of these groups provided different insights and comments, which helped improving the questionnaire layout and scales. This is consistent with the recommendations to include people from various fields and with different perspectives in pre-testing stage to obtain different insights and ideas (Hussey and Hussey 1997).

3.6 Survey Administration and Response Profile

The main survey consisted of 81 questionnaires and was sent electronically during (October 2010) to financial managers of all listed manufacturing companies. A total of 74 questionnaires were received including 64 useable questionnaires and 10 unusable questionnaires. The composition of the survey responses and response rate are depicted in Table (3.1) below:

Table(3.1)
Survey Response Profile

	Total
Usable	64
In eligible	2
Dont apply the budget systems	8
Total	74
Total response rate	91 %
Usable response rate	90 %*

Usable response rate=Usable/ Total sent- in eligible-Don't apply the budget

3.7 Characteristics of Responding Companies

Table (3.2) shows the characteristics of companies with regard to their manufacturing activities. It can be noted that the responding companies cover a wide range of manufacturing activities including food, chemicals, medicine, mining, textile and clothing, agricultural products, paper and electronics. There is no one industry which dominated or exceeded 20% of the total sample except the mining sector.

Table (3.2)
Characteristics of Companies With Regard to Manufacturing Activities/Sector

	Frequency	Percentage (%)
Foods and plant oils	12	18.8
Medicines and veterinary products	7	10.9
Chemical products and petroleum derivatives	12	18.7
Texture and clothes	7	10.9
Mining	17	26.6
Agricultural products and insecticides	2	3.2
Papers	4	6.2
Electronic and electrical products	3	4.7
Total	**64**	**100**

In addition, Table (3.3) shows the characteristic of respondents regarding number of employees. It can be noted that the mean number of employees was (225). Moreover, companies with less than 100 employees have accounted for the highest percentage (34.4%) of total sample, whereas the least percentage (12.5%) was for the companies with more than 400 employees.

Table(3.3)
Characteristics of Companies With Regard to Number of Employees (Mean=225 Employees)

	Frequency	Percentage(%)
Less than 100	22	34.4
100-200	13	20.3
201-300	12	18.8
301-400	9	14.1
More 400	8	12.5
Total	**64**	**100**

Table (3.4) shows the characteristics of companies regarding annual sales. It reveals that the mean annual sales was (37.8) millions Jordanian Dinars and that companies with annual sales of less than 5 million J.Ds have accounted for the highest percentage (39.1%) of total respondents, whereas companies with highest annual sales of more than 20 millions have accounted for (14.1%) of total respondents.

Table (3.4)
Characteristics of Companies With Regard to Annual Sales (Mean=(37.8) Millions Jordanian Dinars)

	Frequency	Percentage(%)
Less than 5 millions	25	39.0
5- less than 10 millions	12	18.8
10- less than15 Millions	11	17.2
15- less than 20 Millions	7	10.9
More than 20 Millions	9	14.1
Total	**64**	**100**

Table (3.5) displays the characteristics of firms regarding their age. It reveals that the mean age was 16 years and that the majority of companies (over 70%) were established over more than 10 years.

Table (3.5)
Characteristics of Companies With Regard to Age (Mean Age= 16 Years)

	Frequency	Percentage(%)
Less than 5 years	12	18.8
5- less than 10	6	9.3
10- less than 15	13	20.3
15- less than 20	17	26.6
More than 20 years	16	25.0
Total	64	100

3.8 Characteristics of Respondents

The perception of respondents and quality of their responses to the questionnaire can be affected by their functional responsibilities, work experience and education. It was important to ensure that respondents were senior managers who could be sufficiently experienced and knowledgeable about business strategy and budgetary control systems in their companies.
Table (3.6) shows the characteristics of respondents with regard to their experience in their current jobs. It can be noted that the mean experience in current job was 7 years and that the majority of respondents (55%) have experience in current job for more than 6 years.

Table (3.6)
Characteristics of Respondents With Regard to Their Experience in Current Job (Mean= 7 Years)

	Frequency	Percentage (%)
Less than 6 years	29	45.3
6- less than 11 years	22	34.4
11- less than 16 years	11	17.2
More than 16 years	2	3.1
Total	**64**	**100**

In addition, Table (3.7) reveals that the mean work experience in general was 9 years and that over (87%) of total respondents have work experience of more than 6 years.

Table (3.7)
Characteristics of Respondents With Regard to Their Experience in General (Mean= 9 Years)

	Frequency	Percentage (%)
Less than 6 years	8	12.5
6- less than 11 years	39	60.9
11- less than 16 years	14	20.9
16 years or more	3	4.7
Total	**64**	**100**

Moreover, Table (3.8) shows that (93%) of total respondents' education were Bachelor and/or master Degree holders.

Table (3.8)
Characteristics of Respondents With Regard to Their Level of Education

	Frequency	Percentage (%)
Diploma	4	6.2
Bachelor	25	70.3
Master	15	23.4
Total	**64**	**100**

Table (3.9) surprisingly reveals that only (12.5%) of respondents have professional certificates which is considered very low and needs further attention from professional bodies and companies to encourage their members to develop their qualifications by obtaining professional certificates.

Table (3.9)
Characteristics of Respondents With Regard to Their Professional Certificates

	Frequency	Percentage (%)
CMA	2	3.1
CIA	5	7.8
Other	1	1.6
Total	**8**	**12.5**
None	**56**	**87.5**
Total	**64**	**100**

In general, respondents' characteristics provide sufficient evidence that the respondents occupied senior positions in their companies and were adequately experienced and knowledgeable about their firms and were able to provide reliable responses to the questionnaire items.

3.9 Statistical analysis and Techniques Used

In order to achieve the research objectives and test the hypotheses, the following statistical techniques were utilized in this research using the statistical package for social science (SPSS):

1. Exploratory factor analysis with Varimax rotation was conducted for the purpose of constructs purification and validation.
2. Coefficient alpha was used to measure the internal consistency for the factors of each construct and the reliability of measures.
3. Descriptive statistic measures such as mean and standard deviation for describing the study variables and ranking them based on their relative importance according to the means.
4. Regression analysis for testing research hypotheses by determining the strength and stability of study model, and the significant effect of independent variables on dependent variables.

Chapter Four
Analysis, Findings and Recommendations

This chapter is divided into four sections. The first section presents the validity and reliability of research constructs. The second section provides the descriptive analysis for the purpose of achieving the first research objective. While the third section purpose is to achieve the second research objective by testing the research hypotheses. Finally, the fourth section presents the main findings and recommendations of the study.

4.1 Construct Validity and Reliability

Measuring abstract constructs or variables in a meaningful way is sometimes problematic and often involves measurement error which impacts the strength of association between constructs and the conclusion regarding the relationship investigated (Rayan, Theobald and Scapens, 2002). Construct validity refers to the degree that the construct is represented by items that cover the domain of meaning for the construct, and involves several procedures or stages (Graver and Mentzer,1999).

To meet construct validity in this research, first, as were discussed earlier in Chapter 3, an extensive literature review was conducted to define and clarify theoretical constructs and identify measures or scales to capture constructs under investigation to ensure content validity. Second, the questionnaire items were examined and pre-tested by different groups of people to ensure face validity. The third procedure or stage for assessing construct validity is to assess statistically the dimensionality and reliability of scales or measures using exploratory factor analysis and Cronbach's alpha. The following criteria was adopted to conduct EFA and assess construct reliability (Hair *et al*., 1998):

1. Eigenvalue for each factor should be greater than 1.
2. Factor loadings for selected variables should be greater than 0.50.
3. The Cronbach alpha for each factor should be greater than 0.60.

Budgetary Control System Usages

It was indicated earlier in chapter 3 that budget can be used for different purposes including planning and forecasting annual operations, Co-ordinating activates, communicating plans, motivating managers, evaluating performance, and controlling activities. It was also pointed out in chapter 2 that budgets can be used diagnostically or interactively (Simons, 1990). Diagnostic usage of budgets relates to the traditional usage of budgets for motivating and evaluating managers and monitoring and controlling activates. In construct interactive usage of budgets relates to using budgets actively as a tool for planning coordinating and communicating strategic priorities and plans (Abernethy an Brownell, 1999). Respondents were asked on a five-point Likert scale ranging from

"Not used at all" to " Extensively used" to rate the extent to which budgets were used for each of nine purposes in their organizations.

Table (4.1)
Exploratory Factor Analysis for Budgetary Control System Usage

Number of Item	INT.BUD	DIA.BUD
A1.Forecasting and planning annual operations.	0.947	
A4.Communicating plans to managers and employees.	0.937	
A6.The budget process is a means of discussion among top management of the changes occurring in the Company.	0.847	
A8.Coordinating activities of the different departments of business units and how their business units interact with other parts of business units.	0.816	
A9.Budgeting information is often used as a means of questioning and debating the ongoing decisions and actions of department managers.	0.924	
A2.Motivating manager to accomplish the budget targets.		0.669
A3.A mechanism for allocate resources productively.		0.900
A5.Judging device to evaluating managerial performance.		0.918
A7.Controlling activities and investigating the variances.		0.808

The results of the EFA represented in Table (4.1) shows the emergence of two factors for budgetary control system usage explaining (75.789) percent of variability of budgetary usages construct. These two factors were labeled as Interactive budgetary usage (INTBUD) and Diagnostic budgetary usage (DIABUD). All items loaded highly on their hypothesized dimensions and were greater than 0.50 ranging from 0.669 to 0.947. The Bartlett test of sphericity (479, $P < 0.001$) and Kaiser's measure of sampling adequacy (0.754) indicated the EFA was appropriate and within acceptable levels (Hair *et al.*, 1998).

In addition, the Cronbach's alpha for INTBUD and DIABUD were 0.938 and 0.834 respectively indicating good levels of reliability. Thus, in this study budgetary usage is represented by two factors, INTBUD captured by five questions (A1,A4,A6,A8,A9), and DIABUD captured by four questions (A2,A3,A5,A7).

Budgetary Control System Practices

It was indicated earlier in chapter 3 that different attributes of budgetary practices have been studied in relevant literature. These include the tightness of budgetary practices, the importance attached to meeting budgetary targets, the extent of budgetary revision and change and the level of participation in setting budgetary targets. Using a five–point Likert scale ranging from "Never Used" to "Always Used", respondents were asked to

indicated the extent to which they perceived six items relating to budgetary practices were used in their organizations.

Table (4.2)
Exploratory Factor Analysis for Budgetary Control System Practices

Number of Item	BUD.REV	BUDIMP
B2.Changes to the budget targets require formal approval.	0.873	
B4.Budget revisions are allowed only in exceptional circumstances.	0.857	
B1.Meeting budget targets is of overriding importance.		0.825
B3.Significant variances between actual and budgeted targets require written explanations.		0.807
B5.The targets set within the budgets are extremely difficult for managers to achieve.		0.822
B6.There is a lot of interaction between top management and department managers in the budget process.		0.892

The results of EFA presented in Table (4.2) show the emergence of two factors for budgetary control system practices, Tightness of budgetary revision (BUDREV) and importance of meeting budgetary targets (BUDIMP). These two factors explain (73.146) percent of variability of budgetary practices construct. All items loaded highly on their factors and were greater than 0.50 ranging from 0.807 to 0.892. The Bartlett test of sphericity (149, $P < 0.001$) and Kaisers measure of sampling adequacy (0.682) indicated that EFA was appropriate and within acceptable levels (Hair *et al* ,1998).

In addition, the Cronbach's alpha for BUDREV and BUDIMP were 0.692 and 0.858 respectively indicating good levels of reliability. Thus, in this study the budgetary practices is represented by two factors, BUDREV captured by two questions (B2, B4) and BUDIMP captured by four questions (B1, B3, B5, B6).

Business Strategy

It was indicated in chapter 3 that business strategy refers to ability of business unit to compete in its market to accomplish competitive advantage compared to its competitors (porter,1980). Porter's generic strategies is used to capture business strategy: low cost strategy (COSTSTR) and differentiation strategies(DIFFSTR). Low cost strategy focuses on being the low cost producer of a narrow product range. In contrast, differentiate strategy focuses on being first-to-market with a verity of innovative products or services (porter, 1980). The scale used to measure business strategy was adapted from Govindarajans (1988) instrument. Using a five-point Likert scale ranging from "Considerably lower" to "Considerably

higher", respondents were asked to position their business units relative to their competitors in five dimensions related to their business strategies.

Table (4.3)
Exploratory Factor Analysis For Business Strategy

Number of Item	COST.STR	DIFF.STR
C1. Product selling price.	0.879	
C2. Manufacturing costs.	0.859	
C3. Brand image.		0.857
C4. Product features.		0.729
C5. Product customization.		0.813

Consistent with the recommendations in the literature to measure business strategy as two separate strategies, the results of EFA presented in Table (4.3) confirmed the multidimensionality of business strategy. Two factors as conceptualized for business strategy emerged from this analysis, Low cost strategy (COSTSTR) and Differentiation strategy (DIFFSTR), explaining (69.663) percent of variability of business strategy. All items loaded highly on their factors and were greater than 0.50 ranging from 0.729 to 0.879.The Bartlett test of sphericity (62, $P < 0.001$) and Kaiser's measure of sampling adequacy (0.583) indicated that EFA was appropriate and within acceptable levels (Hair et al ,1998).

In addition, the Cronbach's alpha for COSTSTR and DIFFSTR were 0.694 and 0.721 respectively indicating good levels of reliability. Thus, in this study the business strategy is represented by two strategies, COSTSTR captured by two items (C1,C2,) and DIFFSTR captured by three items (C3,C4,C5).

Table (4.4) summarized the variables that will be used in this study for further analysis. The reliability of all variables is adequate and within acceptable levels.

Table (4.4)
Reliability of Research Constructs

The Factor	Cronbach's Alpha
Interactive usage of budgets	0.938
Diagnostic usage of budgets	0.834
Tightness of budgetary revision	0.692
Importance of meeting budgetary targets	0.858
Low cost strategy	0.694
Differentiation strategy	0.721

4.2 Descriptive Statistics and Analysis:

The current subsection aims at describing budgetary control system characteristics in Jordanian manufacturing companies and achieve the first

research objective mentioned in Chapter one and restated below for ease of reference:

To determine budgetary control system characteristics (i.e. practices and usages) in the Jordanian manufacturing companies.

4.2.1 Budgetary Control System Usage:

Respondents were asked to indicate the extents to which budgets were used in their business units for nine different purposes or usages. The scale ranged from 1 "Not Used" to 5 "Extensively used". Table (4.5) shows the descending means and standard deviation and rank by mean of budgetary control system usages in Jordanian manufacturing companies. The higher mean values for a specific budgetary purpose or usage provides an indication that companies use budgets for this purpose to a greater extent than lower values.

Table(4.5)
Descriptive Statistics of Budgetary Control System Usage

Description	Means	SD	Rank by mean	Level by mean*
A5.Judging device to evaluating managerial Performance	4.1563	1.042	1	High
A3. Mechanism for allocating resources Productively.	4.1406	0.940	2	High
A2.Motivating manager to accomplish the budget targets.	4.0469	1.146	3	High
A7.Controlling activities and investigating the variances.	3.8750	1.175	4	High
A8.Coordinating activities of the different departments of business units	3.6875	0.990	5	High
A4.Communicating plans to managers and employees.	3.6406	0.940	6	High
A1.Forecasting and planning annual operations.	3.5781	1.146	7	High
A6.The budget process is a means of discussion among top management of the changes occurring in the Company.	3.5780	1.042	8	High
A9.Budgeting information is often used as a means of questioning and debating the ongoing decisions and actions	3.5000	1.175	9	High
Diagnostic budgetary usage	**4.055**	**0.882**		High
Interactive budgetary usage	**3.597**	**0.951**		High

*** High (3.5 and more), Medium(2.5 to 3.49), Low (2.49 and less)**

It can be noted from Table (4.5) that budgets are mainly used for evaluating managerial performance (with highest mean 4.156), followed by using budgets for allocating resources, motivating managers and

controlling activities respectively. This finding indicates that budgets are used diagnostically rather than interactively. The above table also reveals that companies which use budgets interactively mainly use them for coordinating activities and communicating business plans (with means of 3.68 and 3.64 respectively) whereas, using budgets for planning, discussions and questioning ongoing decisions have the least means (means ranges between 3.578 to 3.5).

Thus, it can be concluded that Jordanian manufacturing companies use budgets diagnostically in a traditional fashion for performance evaluation and allocating resources rather than for planning, learning and debating ongoing activities and decisions. This is consistent with the arguments of prior studies that in practice, traditional management accounting practices and usages are perceived to be popular (Johnson and Kaplan, 1987; Ittner and Larker, 2001; Chenhall, 2003).

4.2.2 Budgetary Control System Practices

Respondents were asked to indicate the extents to which eight budgetary practices were practiced in their companies. The scale ranged from 1 "Never" to 5 "Always". Table (4.6) shows the descending means and standard deviation and rank by mean of budgetary control system practices in Jordanian manufacturing companies. The higher mean values for a specific budgetary practice provides an indication that companies follow this practice to a greater extent than lower values.

Table(4.6)
Descriptive Statistics of Budgetary Control System Practices

Description	Mean	SD	Rank by mean	Level by mean*
B1.Meeting budget targets is of overriding importance.	3.7187	1.046	1	High
B5.The targets set within the budgets are extremely difficult for managers to achieve.	3.6406	1.074	2	High
B4. Budget revisions are allowed only in exceptional circumstances.	3.6250	1.408	3	High
B6. A lot of interaction between top management and department managers in the budget process.	3.5313	1.053	4	High
B3.Significant variances between actual and budgeted targets require written explanations.	3.4688	1.038	5	Medium
B2.Changes to the budget targets require formal approval.	3.1094	1.491	6	Medium
Importance of meeting targets	**3.589**	**0.882**		**High**
Tight budgetary revision	**3.367**	**1.266**		**Medium**

*** High (3.5 and more), Medium(2.5 to 3.49), Low (2.49 and less)**

It can be noted from Table (4.6) that the practices with the highest mean values include meeting budgetary targets is of overriding importance,

targets set within budgets are difficult to achieve, and budgetary revisions are allowed only in exceptional circumstances (with mean values 3.718, 3.640 and 3.625 respectively). Whereas, the lowest mean values were for practices related to changes to targets require formal approval and variances require written explanations (with lowest means 3.109 and 3.468 respectively). These findings are consistent with the literature which states that organizations that place more emphasis on traditional budgetary control systems will attach higher importance to the achievement of tight budgetary targets by regarding them as firm commitments with no revisions of budget targets during the year (Govindarajan, 1988; Anthony and Govidarajan, 2001).

4.2.3 Level of Budgetary Participation

Respondents were asked to indicate whether their companies use bottom-up budgets (participative budgets) or top-down budgets (non-participative budgets). Table (4.7) shows that 76.6% of respondents use a bottom-up budgetary form where lower level managers participate in setting budgetary targets. Whereas only 21.9% of the respondents use top down budget.

Table (4.7)
Frequencies and Percentages of Budgetary Participation

	Frequency	Percentage (%)
Bottom up budget	49	76.6
Top down budget	14	21.9
No answer	1	1.5
Total	64	100

4.2.4 Types of Budgets Used

Financial budgets

It can be noted from Table (4.8) that the most used financial budgets in Jordanian manufacturing companies are cash budget and budgeted balance sheet with percentage (89.1% of total respondents) followed by capital expenditures budget (82.8% of total respondents). Whereas, income statement budget was the least used budget with a percentage of (71.9% of total respondents).

Table (4.8)
Frequencies and Percentages for Types of Financial Budgets

Form of Budget	Used		Not used	
	Frequency	Percentage	Frequency	Percentage
Cash Inflow /Out Flow Budget	57	89.1	7	10.9
Capital Expenditure Budget	53	82.8	11	17.2
Budgeted Income Statement	46	71.9	18	28.1
Budgeted Balance sheet	57	89.1	7	10.9

Operating Budgets

Table (4.9) refers to the frequencies and percentages of application degree for operating budgets. It can be noted that selling expenses budget is the most used budget in Jordanian manufacturing companies (with highest frequency 96.9) followed by sales budget, direct material budget, production budget, and administrative expense budget. While the least used budget was over head cost budget with percentage (79.7%).

Table (4.9)
Frequencies and Percentages for Types of Operating Budgets

Form of Budget	Used		Not used	
	Frequency	Percentage	Frequency	Percentage
Sales/Revenue Budget	61	95.3	3	4.7
Production Budget	59	92.2	5	7.8
Direct Materials Budget	60	93.8	4	6.2
Direct Labor Budget	55	85.9	9	14.1
Overhead cost Budget	51	79.7	13	20.3
Selling Expense Budget	62	96.9	2	3.1
Administrative Expense Budget	59	92.2	5	7.8

4.3 Hypotheses Testing Relating to the Effect of Business Strategy on Budgetary Control System Characteristics (i.e. usage and practices)

Simple Regression analysis was performed to achieve the second research objective stated below:

To determine the impact of business strategies on budgetary control systems characteristics (i.e. practices and usages*)*

However, before testing the study hypotheses, several diagnostic tests were performed to ensure the suitability of data for regression analysis (a parametric test). Normality is an issue when performing a parametric test such as regression analysis. According to Hair *et al* (1998) skewness values within the range of -1 and 1 and kurtosis values within -3 and 3 are indication of an acceptable range of normality while values outside this range indicate a substantial departure from normality. Table 4.10 shows the descriptive statistics for research construct required for testing the hypotheses. It includes the mean (a measure of central tendency), standard deviation (a measure of spread of distribution) and skewness and kurtosis (measures of distribution). Thus, table 4.10 shows that skewness and kurtosis values for all research variables fall within the acceptable range of normal distribution.

Table(4.10)
Descriptive Statistics of Research Constructs

Dimension	Means	SD	Skewness	kurtosis
Interactive budgetary usage	3.597	0.951	0.249	-1.160
Diagnostic budgetary usage	4.055	0.882	-0.522	-0.796
Tightness of Budgetary revision	3.367	1.264	-0.202	-1.169
Importance of meeting budgetary targets	3.590	0.882	0.334	-0.884
Low cost strategy	2.367	0.793	-0.236	-0.736
Differentiation strategy	3.828	0.710	-0.142	0.482

In addition, Variance Inflation Factor test (VIF) and Tolerance test were used to make sure that there is no multicollinarity problem among independent variables. VIF values greater than 10 and Tolerance values less than 0.10 are indicative of a multicollinarity problem (Hair *et al.*, 1998). Table (4.11) shows that VIF values and Tolerance values for the research independent variables fall within acceptable limits for conducting regression analysis.

Table (4.11)
Variance Inflation Factor (VIF) and Tolerance Test

Independent variables	VIF	Tolerance
Low cost strategy	1.000	1.000
Differentiation strategy	1.000	1.000

4.3.1 Testing the Impact of Strategy on Budgetary Control System Usage
(H_{A1}- H_{A4})

First Hypothesis Test (Interactive budgetary Usage)

H_{A1}: Low cost strategy has a significant negative impact on interactive Budgetary usage.

Tables (4.12) and (4.13) show the simple regression model statistics for testing the first research hypothesis (H_{A1}). The F statistic (F= 115.363) shown in table 4.12 was statistically significant at 0.000 level indicating the goodness of fit of regression model. The R^2 value also indicates that the independent variable (low cost strategy) explains 65% of the variation in the dependent variable (interactive budgetary usage), reflecting the strength and stability of the study model ($R^2 =$ 0.650).

Table (4.12)
Analysis of Variance For First Hypothesis

Model	R^2	Sum of squares	Df	Mean square	F	*Sig.
Regression		37.074	1	37.074	115.363	0.000
Residual	0.650	19.925	62	0.321		
Total		56.999	63			

***Sig($\alpha \leq 0.05$)**

In addition, the results related to H_{A1} shown in Table (4.13) supports fully the first hypothesis that low cost strategy has a significant negative impact on interactive budgetary usage (Beta = - 0.806; t = -10.741, α = 0.000). Thus, H_{A1}, was fully accepted as indicated by the regression model results.

Table (4.13)
Simple Regression Analysis For First Hypothesis

Model	B	Std.error	Beta	t	*Sig.
(Constant)	5.887	0.225		26.203	0.000
Low cost	-0.967-	0.090	-0.806-	-10.741-	0.000

***Sig($\alpha \leq 0.05$); Dependent variable: Interactive budgetary usage**

Second Hypothesis Test (Interactive Budgetary Usage)

H_{A2}:Differentiation strategy has a significant positive impact on interactive budgetary usage.

Tables (4.14) and (4.15) show the simple regression model statistics for testing the second research hypothesis (H_{A2}). The F statistic (F= 0.251) shown in table 4.14 was not statistically significant indicating the lack of goodness of fit of regression model. In addition, R^2 value was very weak indicating that the independent variable (differentiation strategy) explains only 0.4 % of the variation in the dependent variable (interactive budgetary usage), thus, not reflecting the strength and stability of the study model (R^2 = 0.004).

Table(4.14)
Analysis of Variance For Second Hypothesis

Model	R^2	Sum of squares	Df	Mean square	F	*Sig.
Regression		0.230	1	0.230	0.251	0.618
Residual	0.004	56.770	62	0.916		
Total		56.999	63			

***Sig(α ≤ 0.05); Dependent variable: Interactive budgetary usage**

In addition, the results related to H_{A2} shown in Table (4.15) do not support the hypothesis that differentiation strategy has a significant positive impact on interactive budgetary usage (Beta = - 0.063; t = 0.501, α = 0.618). Contrarily to the hypothesized positive direction, the direction of effect was negative and the strength of effect was weak and not statistically significant. Thus, H_{A2}, was fully rejected as indicated by the regression model results.

Table (4.15)
Simple Regression Analysis For Second Hypothesis

Model	B	Std.error	Beta	t	*Sig.
(Constant)	3.922	0.661		5.936	0.000
Differentiation	-0.085-	0.170	-0.063-	-0.501-	0.618

***Sig(α ≤ 0.05); Dependent variable: Interactive budgetary usage**

Third Hypothesis Test (Diagnostic Budgetary Usage):

H_{A3}**:Lowcost strategy has a significant positive impact on diagnostic budgetary usage**.

Tables (4.16) and (4.17) show the simple regression model statistics for testing the third research hypothesis (H_{A3}). The F statistic (F= 1.529) shown in table 4.16 was not statistically significant (α=0.221) indicating

the lack of goodness of fit of regression model. In addition, R^2 value was weak indicating that the independent variable (low cost strategy) explains only 2.4 % of the variation in the dependent variable (diagnostic budgetary usage), thus, not reflecting the strength and stability of the study model ($R^2 = 0.024$).

Table (4.16)
Analysis of Variance For Third Hypothesis

Model	R^2	Sum of squares	Df	Mean square	F	*Sig.
Regression		1.181	1	1.181	1.529	0.221
Residual	0.024	47.878	62	0.772		
Total		49.059	63			

***Sig(α ≤ 0.05); Dependent variable: Diagnostic budgetary usage**

In addition, the regression results related to H_{A3} shown in Table (4.17) do not support fully the hypothesis that low cost strategy has a significant positive effect on diagnostic budgetary usage (Beta = 0.155; t = 1.237, α = 0.221). Although, the direction of effect was positive as hypothesized, the strength of effect was not statistically significant. Thus, H_{A3}, was rejected as indicated by the regression model results.

Table(4.17)
Simple Regression Analysis For Third Hypothesis

Model	B	Std.error	Beta	t	*Sig.
(Constant)	3.646	0.348		10.469	0.000
Low cost	0.137	0.140	0.155	1.237	0.221

***Sig(α ≤ 0.05); Dependent variable: Diagnostic budgetary usage**

Forth Hypothesis Test (Diagnostic Budgetary Usage):

H_{A4}:**Differentiation strategy has a significant negative impact on diagnostic budgetary usage**.

Tables (4.18) and (4.19) show the simple regression model statistics for testing the fourth research hypothesis (H_{A4}). The F statistic (F= 1.235) shown in table 4.18 was not statistically significant (α=0.271) indicating the lack of goodness of fit of regression model. In addition, R^2 value was weak indicating that the independent variable (differentiation strategy) explains only 2.0 % of the variation in the dependent variable (diagnostic budgetary usage), thus, not reflecting the strength and stability of the study model ($R^2 = 0.020$).

Table (4.18)
Analysis of Variance For Fourth Hypothesis

Model	R^2	Sum of squares	Df	Mean square	F	*Sig.
Regression		0.958	1	0.958	1.235	0.271
Residual	0.020	48.100	62	0.776		
Total		49.059	63			

***Sig(α ≤ 0.05); Dependent variable: Diagnostic budgetary usage**

In addition, the regression results related to H_{A4} shown in Table (4.19) do not support fully the hypothesis that differentiation strategy has a significant negative effect on diagnostic budgetary usage (Beta = 0.140; t = 1.111, α = 0.271). Contrarily to the hypothesized negative direction, the direction of effect was positive and the strength of effect was moderate but not statistically significant. Thus, H_{A4}, was fully rejected as indicated by the regression model results.

Table (4.19)
Simple Regression Analysis For Fourth Hypothesis

Model	B	Std.error	Beta	T	*Sig.
(Constant)	3.390	0.608		5.574	0.000
Differentiation	0.174	0.156	0.140	1.111	0.271

***Sig(α ≤ 0.05); Dependent variable: Diagnostic budgetary usage**

4.3.2 Testing the Impact of Strategy on Budgetary Control System Practices

(H_{A5}- H_{A8})

Fifth Hypothesis Test (Tightness of budgetary revision):

H_{A5}: Low cost strategy has a significant positive impact on tightness of budgetary revision.

Tables (4.20) and (4.21) show the simple regression model statistics for testing the fifth research hypothesis (H_{A5}). The F statistic (F= 0.002) shown in table 4.20 was not statistically significant (α=0.926) indicating the lack of goodness of fit of regression model. In addition, R^2 value was very weak indicating that the independent variable (low cost strategy) explains no variation in the dependent variable (tightness of budgetary revision), thus, not reflecting the strength and stability of the study model ($R^2 =$ 0.000).

Table (4.20)
Analysis of Variance For Fifth Hypothesis

Model	R^2	Sum of squares	Df	Mean square	F	*Sig.
Regression		0.004	1	0.004	0.002	0.962
Residual	0.000	100.617	62	1.623		
Total		100.621	63			

***Sig(α ≤ 0.05); Dependent variable: Tightness of budgetary revision**

In addition, the regression results related to H_{A5} shown in Table (4.21) do not support fully the hypothesis that low cost strategy has a significant positive impact on tightness of budgetary revision (Beta = -0.006; t = 0.047, α = 0.962). Contrarily to the hypothesized positive direction, the direction of effect was negative and the strength of effect was very weak and not statistically significant. Thus, H_{A4}, was fully rejected as indicated by the regression model results.

Table (4.21)
Simple Regression Analysis For Fifth Hypothesis

Model	B	Std.error	Beta	T	*Sig.
(Constant)	3.390	0.505		6.714	0.000
Low cost	-0.010-	0.202	-0.006-	-0.047-	0.962

***Sig(α ≤ 0.05); Dependent variable: Tightness of budgetary revision**

Sixth Hypothesis Test (Tightness of budgetary revision):

H_{A6}:**Differentiation strategy has a significant negative impact on tightness of budgetary revision**

Tables (4.22) and (4.23) show the simple regression model statistics for testing the sixth research hypothesis (H_{A6}). The F statistic (F= 0.697) shown in table 4.22 was not statistically significant (α=0.407) indicating the lack of goodness of fit of regression model. In addition, R^2 value was very weak indicating that the independent variable (differentiation strategy) explains only 1.1% of the variation in the dependent variable (tightness of budgetary revision), thus, not reflecting the strength and stability of the study model ($R^2 =$ 0.011).

Table(4.22)
Analysis of Variance For Sixth Hypothesis

Model	R^2	Sum of squares	Df	Mean square	F	*Sig.
Regression		1.118	1	1.118	0.697	0.407
Residual	0.011	99.503	62	1.605		
Total		100.621	63			

***Sig(α ≤ 0.05); Dependent variable: Tightness of budgetary revision**

In addition, the regression results related to H_{A6} shown in Table (4.22) do not support fully the hypothesis that differentiation strategy has a significant negative impact on tightness of budgetary revision (Beta = -0.105; t = 0.835, α = 0.407). although the results were consistent with the hypothesized direction, the strength of effect was moderate but not statistically significant. Thus, H_{A4}, was fully rejected as indicated by the regression model results.

Table(4.23)
Simple Regression Analysis For Sixth Hypothesis

Model	B	Std.error	Beta	t	*Sig.
(Constant)	4.085	0.875		4.670	0.000
Differentiation	-0.188-	0.225	-0.105-	-0.835-	0.407

***Sig(α ≤ 0.05); Dependent variable: Tightness of budgetary revision**

Seventh Hypothesis Test (Importance of meeting budgetary targets):
H_{A7}:**Lowcost strategy has a significant positive impact on importance of meeting budgetary targets**.

Tables (4.24) and (4.25) show the simple regression model statistics for testing the seventh research hypothesis (H_{A7}). The F statistic (F= 43.789) shown in table 4.24 was statistically significant (α=0.000) indicating the goodness of fit of regression model. In addition, R^2 value was strong indicating that the independent variable (low cost strategy) explains 64.3% of the variation in the dependent variable (importance of meeting budgetary targets), thus, reflecting the strength and stability of the study model ($R^2 =$ 0.643).

Table(4.24)
Analysis of Variance For Seventh Hypothesis

Model	R^2	Sum of squares	Df	Mean square	F	*Sig.
Regression		20.301	1	20.301	43.789	0.000
Residual	0.643	28.744	62	0.464		
Total		49.046	63			

***Sig(α ≤ 0.05); Dependent variable: Importance of meeting budgetary targets**

In addition, the regression results related to H_{A7} shown in Table (4.22) support fully the hypothesis that low cost strategy has a significant positive impact on importance of meeting budgetary targets (Beta = 0.643; t = 6.617, α = 0.000). Thus, H_{A7}, was fully accepted as indicated by the regression model results.

Table(4.25)
Simple Regression Analysis For Seventh Hypothesis

Model	B	Std.error	Beta	t	*Sig.
(Constant)	5.284	0.270		19.583	0.000
Low cost	-0.716-	0.108	0.643	6.617	0.000

***Sig(α ≤ 0.05) ; Dependent variable: Importance of meeting budgetary targets**

Eighth Hypothesis Test (Importance of meeting budgetary targets)
H_{A8}:**Differentiation strategy has a significant negative impact on importance of meeting budgetary targets**.

Tables (4.26) and (4.27) show the simple regression model statistics for testing the eighth research hypothesis (H_{A8}). The F statistic (F= 0.061) shown in table 4.26 was not statistically significant (α=0.806) indicating the lack of goodness of fit of regression model. In addition, R^2 value was weak indicating that the independent variable (differentiation strategy) explains only 0.1 % of the variation in the dependent variable (importance of meeting budgetary targets), thus, reflecting the weakness and instability of the study model (R^2 = 0.001).

Table(4.26)
Analysis of Variance For Eighth Hypothesis

Model	R^2	Sum of squares	Df	Mean square	F	*Sig.
Regression		0.048	1	0.048	0.061	0.806
Residual	0.001	48.998	62	0.790		
Total		49.046	63			

***Sig(α ≤ 0.05); Dependent variable: Importance of meeting budgetary targets**

In addition, the regression results related to H_{A8} shown in Table (4.27) do not support fully the hypothesis that differentiation strategy has a significant negative impact on importance of meeting budgetary targets (Beta = 0.031; t = 0.247, α = 0.806). Also contrarily to the hypothesized negative direction, the direction of effect was positive and the strength of effect was very weak and not statistically significant. Thus, H_{A8}, was fully rejected as indicated by the regression model results.

Table(4.27)
Simple Regression Analysis Eighth Hypothesis

Model	B	Std.error	Beta	t	*Sig.
(Constant)	3.441	0.614		5.605	0.000
Differentiation	0.039	0.158	0.031	0.247	0.806

***Sig(α ≤ 0.05); Dependent variable: Importance of meeting budgetary targets**

Table (4.28)
Summary of Results of Hypotheses Testing

Hypothesis	Decision
H_{A1}:Low cost strategy has a significant negative impact on interactive budgetary usage.	Accepted
H_{A2}:Differentiation strategy has a significant positive impact on interactive budgetary usage.	Rejected
H_{A3}:Low cost strategy has a significant positive impact on diagnostic budgetary usage	Rejected
H_{A4}:Differentiation strategy has a significant negative impact on diagnostic budgetary usage.	Rejected
H_{A5}:Low cost strategy has a significant positive impact on tightness of budgetary revision.	Rejected
H_{A6}: Differentiation strategy has a significant negative impact on tightness of budgetary revision.	Rejected
H_{A7}:Low cost strategy has a significant positive impact on importance of meeting budgetary targets.	Accepted
H_{A8}:Differentiation strategy has a significant negative impact on importance of meeting budgetary targets.	Rejected

4.4 Discussion and Summary of the Findings

Two types of results have been reported in this study. First, the descriptive analysis findings which describe budgetary control system characteristics in Jordanian manufacturing companies. Second, Simple Regression analysis was performed to test the hypotheses derived from the research theoretical model (See Chapter 2, Section 2.9).

4.4.1 The findings of descriptive analysis

It has been mentioned in the previous section that descriptive analysis was used to achieve the first research objective stated below:

To determine budgetary control system characteristics (i.e. practices and usages) in the Jordanian manufacturing companies

The main findings are presented below:

The results (stated in table 4.5 and table 4.6) indicate that Jordanian manufacturing companies use budgets diagnostically and in a traditional fashion for performance evaluation and allocating resources rather than interactively for planning, learning and debating ongoing activities and decisions. In addition, they attach more emphasis on meeting budgetary targets with minimal revision during the year.

These findings are consistent with the arguments of prior studies that in practice, traditional management accounting practices and usages are perceived to be popular (Johnson and Kaplan, 1987; Ittner and Larker, 2001; Chenhall, 2003). Organizations that place more emphasis on traditional budgetary control systems will attach higher importance to the achievement of tight budgetary targets by regarding them as firm commitments with no revisions of budget targets during the year (Govindarajan, 1988; Anthony and Govidarajan 2001).

The results also indicate that Jordanian manufacturing companies tend to use a bottom-up budgetary form rather than top-down budgetary form. This reveals that middle and lower level managers participate in setting budgetary targets.

In addition, the results reveal the most used forms of financial budget in Jordanian manufacturing companies are cash budget and budgeted balance sheet. Whereas, income statement budget was the least used budget. Also, the most used form of operating budgets are selling expenses budget and Sales/Revenue budget, while, the least used was over head budget.

4.4.2 Hypotheses Analyses Findings

It was pointed out in (section 4.3) that regression analysis was utilized to examine the research hypotheses and achieve the second research objective restated below:

"To determine the impact of business strategies on budgetary control systems characteristics (i.e. practices and usages)".

Table 4.29 summarizes hypotheses analysis and findings. The results suggest that business strategies have different effect on budgetary control system characteristics (i.e. practices and usages) in Jordanian manufacturing companies

Table (4.29)
Summary of the Research Hypotheses Testing Relating to the Impact of Business Strategy on Budgetary Control Systems Characteristics

	Low cost strategy					Differentiation strategy				
	Exp.	Beta	t-value	*Sig.		Exp.	Beta	t-value	*Sig.	
BUD .USAGE										
INTBUD	-	-0.806	-10.741	0.000	Accepted	+	-0.063	-0.501	0.618	Rejected
DIGBUD	+	0.155	1.237	0.221	Rejected	-	0.140	1.111	0.271	Rejected
BUD.PRACTICE										
BUDREV	+	-0.006	-0.047	0.962	Rejected	-	-0.105	-0.835	0.407	Rejected
BUDIMP	+	0.643	6.617	0.000	Accepted	-	0.031	0.247	0.806	Rejected

Exp.=Expected; *Sig($\alpha \leq 0.05$)

1. Business Strategy and Budgetary Control System Usages (H_{A1}- H_{A4}):

It was hypothesized that low cost strategy (COSTSTR) has a negative impact on INTBUD (H_{A1}), and a positive impact on DIGBUD (H_{A3}), whereas differentiation strategy (DIFFSTR) has a positive impact on INTBUD (H_{A2}), and a negative impact on DIGBUD(H_{A4}). The findings illustrated in table (4.29) indicate that COSTSTR has a negative significant impact on INTBUD in Jordanian manufacturing companies as were hypothesized. However, DIFFSTR was found to have a negative but not significant impact on INTBUD. Moreover, the findings indicate that both COSTSTR and DIFFSTR have a positive but not significant impact on DIGBUD. These findings is not consistent with prior studies' (e.g., Simons, 1995, Anthony and Govindarajan, 2001) argument that budgets are used interactively (i.e. use of budgets for short-term planning and coordination) rather than diagnostically (i.e. use of budgets for performance evaluation and controlling behavior) in organizations pursuing a differentiation strategy. Conversely, diagnostic use of budgets is likely to be more effective in organizations pursuing low cost strategy.

2. Business Strategy and Budgetary Control System Practices (H_{A5}- H_{A8}):

It was hypothesized that low cost strategy (COSTSTR) has a positive impact on tightness of budgetary revision (BUDREV) (H_{A5}), and a positive impact on importance of meeting budgetary targets (BUDIMP) (H_{A7}), whereas differentiation strategy (DIFFSTR) has a negative impact on BUDREV (H_{A6}), and a negative impact on BUDIMP (H_{A8}). The findings illustrated in Table (4.29) indicate that COSTSTR has a positive

significant impact on BUDIMP in the Jordanian manufacturing companies, whereas, DIFSTR has a positive but not significant impact on BUDIMP in Jordanian manufacturing companies. Moreover, the findings indicate that both COSTSTR and DIFFSTR have a negative but not significant impact on BUDREV. These findings are consistent with (Govindarajan's, 1988) argument that the budgets are used with less frequent revisions and more emphasis on meeting budgetary targets in organizations pursuing low cost strategy. However the findings contradict Simons (1987) arguments that organizations following differentiation strategy attach a great deal of importance to tight budgetary control (defined as importance attached to meeting tight budgetary targets), whereas a negative relationship between performance and tight budgetary control were found in organizations following low cost strategy.

An interpretation of these findings could be that different companies experience different sets of managerial decisions to adopt and use budgetary control system characteristics (Gosselin, 1997). Therefore, different managerial decisions may have more influence for using particular budgetary control system characteristics than business strategy. Thus, it can be concluded that different managerial decisions underlying Business strategy (low cost or differentiation strategy) may not influence directly budgetary control system characteristics in Jordanian manufacturing companies. Finally, it should be noted that the aforementioned results are partially consistent with the descriptive analysis findings emerged in section (4.2) which indicate that Jordanian manufacturing companies use budgets diagnostically and in a traditional fashion for performance evaluation and allocating resources rather than interactively for planning, learning and debating ongoing activities and decisions.

4.5 Implications of Research Findings

The findings of this study raise important issues and implications for management accounting researchers. From the perspective of the contingency theory literature, the measurement of contingency variables remains controversial (Larcker, 1981). The results of this study indicated that business strategy is a multidimensional concept. Thus, researchers employing contingent variables should utilize factor analysis to assess whether the items used can be aggregated into a single or more than one variable, the exploratory factor analysis of the business strategy concept indicated the multidimensionality of this concept, which consists of two dimensions (i.e. low cost and differentiation). This is different from previous studies (e.g. Govindarajan, 1988) that have measured this concept as a simple continuum between firms following low cost strategy and those following differentiation strategies (Dent, 1990). Such a continuum

neglects the multidimensionality of strategy because a single measure is unlikely to capture many relevant strategic distinctions. Therefore a low score on low cost strategy does not essentially indicate a high score on the differentiation strategy (Ittner and Larcker, 2001). Thus, future management accounting researchers should consider the multidimensional nature of business strategy and other constructs incorporated in their models in order to provide clearer results that would enhance understanding of effective on budgetary control system characteristics design.

On the other hand, this study extends previous studies concerning the implications and practices of budgets (e.g. Sunder, 2002) by investigating the impact of a business strategy on broader budgetary control system characteristics by incorporating both budgetary system practices and budgetary system usage. Most of the previous studies that have examined the characteristics of budgetary systems have defined this construct in questionable way. This study suggests that there is a need for more valid measures of what represents the characteristics of budgetary systems. Thus, this study provides researchers with detailed steps and procedures for measuring the usage and practices of budgets. Adopting this approach in future studies has the potential to provide a greater level of confidence in determining the characteristics of budgetary systems.

Finally, this study has some useful practical implications not only for management accounting researchers, but also for senior managers in Jordanian manufacturing companies. It provides senior managers responsible for the design of budgetary control system with an increased understanding of organizational process and key factors that must be considered for designing effective budgetary control system characteristics. In view of the results of this research, it can be suggested that internally consistent efforts by manufacturing companies to align their strategic orientation with budgetary control system characteristics may contribute to higher organizational effectiveness and survival.

4.6 Limitations and Further Directions for Future Research

While the results of this study provide general support for the application of contingency relationships to the manufacturing sector, they should be interpreted in the light of the study's limitations.

First, the results of this study may not be generalisable to other organizations operating in other industries such as services or retail. Future research will have to reveal whether the results are applicable for organizations operating in non-manufacturing industries.

Second, this study has only examined one control system attribute (i.e. budgetary control system characteristics). Thus it has neglected other control systems. In this vein, Fisher (1995) argued that one of the major weaknesses of contingency control research is that it examines only one

contingent variable and one control attribute at a time. Thus, future researchers may include broader models and other control variables.

Third, this study has neglected the indirect relationships between business strategy and their simultaneous effect on both the characteristics of budgetary system. For example, low cost strategy might have an indirect impact on importance of meeting budgetary targets. Thus, the characteristics of budgetary system may be influenced by the indirect effects of a business strategy.

Finally, a potential limitation in this study relates to the level of variance R^2 explained by the business strategy. Thus, the presence of the business strategy incorporated in the study theoretical model does not provide a complete explanation of the results. Thus, there is an opportunity for future research to identify and examine the impact of other contextual variables (e.g. culture, management style) on a budgetary control system characteristics (i.e. practices and usages). Hopefully, this research will encourage management accounting researchers to conduct further empirical studies about the budgetary control system characteristics (i.e. practices and usages) approach to clarify some of the complexity and confusion that is accompanied with this approach. Through this research, both researchers and managers will be better able to understand how the budgetary control system characteristics (i.e. practices and usages) approach is effectively implemented in Jordanian manufacturing companies.

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Appendix I
Questionnaire

Mu'tah University

Questionnaire survey

Dear Participant:

We are currently undertaking a research study relating to budgetary control systems characteristics within today's changing environment. The research major aim to examine factors influencing the effective use of budgetary control systems in Jordanian manufacturing companies. The success of this study, which is also undertaken as a partial fulfillment for the requirement of MBA-Accounting program undertaken by Mr Al-Sarayreh, can only be achieved and the role of management accounting enhanced with your co-operation to participate in this study and completing the enclosed questionnaire.

We undertake to ensure the **confidentiality** of all information received and will be used solely for scientific research purposes. The names of individual respondents and their companies will not be released to third party under any circumstances. If you feel you have been incorrectly identified because you do not have sufficient knowledge relating to the content of the questionnaire ,we would be grateful if you could pass the questionnaire to the appropriate colleague within your company.

It would be most helpful if you could return the completed questionnaire by e-mail

Thanking you in advance for your valuable participation

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SECTION A: USAGES AND PRACTICES OF BUDGETS

Part 1. ***BUDGETARY USAGE: Budgets can be used for many purposes , please tick (√) the appropriate scale to indicate the <u>extent of use of budgets in your business unit</u>:***

Not used at all	Low used	Moderately used	High used	Extensively used
1	**2**	**3**	**4**	**5**

1	Forecasting and planning annual operations.	1	2	3	4	5
2	Motivating manager to accomplish the budget targets.	1	2	3	4	5
3	A mechanism for allocate resources productively.	1	2	3	4	5
4	Communicating plans to managers and employees.	1	2	3	4	5
5	Judging device to evaluating managerial performance.	1	2	3	4	5
6	The budget process is a means of discussion among top management of the changes occurring in the Company.	1	2	3	4	5
7	Controlling activities and investigating the variances.	1	2	3	4	5
8	Coordinating activities of the different departments of business units and how their business units interact with other parts of business units.	1	2	3	4	5
9	Budgeting information is often used as a means of questioning and debating the ongoing decisions and actions of department managers.	1	2	3	4	5

Part 2. ***BUDGET PARTICIPATION: This part measures the nature budgetary participation, please tick (√) in front of word that are <u>closer to the nature</u> of budgeting participation within the company:***

☐ **Bottom-up budgeting:** budget is established at the bottom level of the organization at the operating unit, departmental or cost / profit centre level-and then brought up to the corporate level, to adjust the size of the total budget to conform with the objectives and strategies of the company.

☐ **Top-Down budgeting:** The top-down approach of budgeting means that upper management completes the budgeting process with minimal participation from the management of individual operating units or departments,and then send the budget to lower management, which holds the responsibility for implementation only.

Part 3. ***BUDGET PRACTICES: this part relate to the budgetary control practices in your business unit. Using the scale below , please indicate the extent to which you agree or disagree with the statements by tick (√) the appropriate scale for each statement :***

Never	Rarely	Sometimes	Often	Always
1	**2**	**3**	**4**	**5**

1	Meeting budget targets is of overriding importance.	1	2	3	4	5
2	Changes to the budget targets require formal approval.	1	2	3	4	5
3	Significant variances between actual and budgeted targets require written explanations.	1	2	3	4	5
4	Budget revisions are allowed only in exceptional circumstances.	1	2	3	4	5
5	The targets set within the budgets are extremely difficult for managers to achieve.	1	2	3	4	5
6	There is a lot of interaction between top management and department managers in the budget process.	1	2	3	4	5

Part 4. ***FORM OF BUDGETS: which of the following operational and financial budgets are used by the company. please tick (√) those that applies to your Company. You can check MORE THAN ONE item:***

Operating Budget	
Sales/Revenue Budget	
Production Budget	
Direct Materials Budget	
Direct Labor Budget	
Overhead Budget	
Selling Expense Budget	
Administrative Expense Budget	

Others, please specify:___________________

Financial Budget	
Cash Inflow/Outflow Budget	
Capital Expenditure Budget	
Budgeted income statement	
Budgeted Balance sheet	

Others, please specify:_____________________

SECTION B: ABOUT YOUR BUSINESS UNIT

Part1. ***The following statements help us to develop a greater understanding of your organization type. Using the scale below, please indicate for each item your estimate of the position of your organization relative to its leading competitors in the following areas, please tick (√) the appropriate scale for each statement :***

Considerably lower	Lower	About the same	Higher	Considerably higher
1	2	3	4	5

1	Product selling price.	1	2	3	4	5
2	Manufacturing costs.	1	2	3	4	5
3	Brand image.	1	2	3	4	5
4	Product features.	1	2	3	4	5
5	Product customization.	1	2	3	4	5

Part 2.***The following general questions help us to categorize your organization by type and activities. For each question, please write your answer in the space provided:***

1.Number of full-time employees (Approximately)-----------------employees

2 .In what type of business (industry) is your company engaged?
(please be specific: e.g. steel manufacturing) -------------------

3.Please specify the approximate annual sales turnover for
your business unit for the last financial year ------------------- JD

Part 3***: RESPONDENT'S PROFILE***

The following questions are designed to enable us to classify your answers. We reiterate that all information you provide is strictly CONFIDENTIAL and any information identifying the respondent will not be disclosed under any circumstances:

1. How many years have you been in this current position? -----------years.

2. How many years of working experience do you have?
(including experience prior to joining this business unit) -----------years.

3. Please insert your level of education (Diploma, Bachelor,
Master, PHD, …) ------------

4. Please insert any professional certificates you obtained
(CPA,JCPA,CMA,CIA….) ------------

No More Questions. Thank you very much for your assistance in completing this questionnaire. We would appreciate any comments or suggestions you may care to make about any subject mentioned in the questionnaire. You may use the space below.

Appendix II
استبانة الدراسة

جامعـــة مؤتــــة

استبانـــــه

عزيزي المستجيب:

يقوم الباحث من خلال هذه الدراسة بالتعرف على خصائص أنظمة الموازنات التقديرية, ودراسة العوامل التي تؤثر على الاستخدام الفعال لنظم الموازنات التقديرية في الشركات الصناعية الاردنيه , وذلك استكمالا لمتطلبات الحصول على درجة الماجستير في المحاسبة.
لذلك أشكر لكم تعاونكم معي من خلال الإجابة على الأسئلة الواردة في الاستبانه لما له من دور كبير في إنجاح هذه الدراسة,مؤكداً لكم أن جميع المعلومات سوف تعامل بسرية تامة وتستخدم لأغراض البحث العلمي فقط,مع العلم أن أسماء المستجيبين وأسماء الشركات لن يفصح عنها لأي طرف ثالث, تحت أي ظرف من الظروف .
كما نأمل أن تقوم بتمرير الاستبيان إلى أي زميل آخر في الشركة إذا كنت تشعر بأنك غير مطلع بشكل كافي على أحد أقسام الاستبانه, ولكم كل الامتنان لإرجاع الاستبانه من خلال الرابط الالكتروني, مع استعدادنا على تزويدكم بنسخة من نتائج هذه الدراسة في حال رغبتكم بذلك.

شاكراً لكم حسن تعاونكم

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القسم الأول: استخدامات وممارسات الموازنات التقديرية

الجزء (أ): <u>استخدام الموازنات</u>: *تستخدم الموازنات للعديد من الأهداف, يرجى وضع إشارة (√) أمام الخيار المناسب لبيان مدى استخدام الموازنات التقديرية في الشركة للغايات التالية:*

غير مستخدمه	استخدام قليل	استخدام متوسط	استخدام كبير	استخدام كبير جداً
1	2	3	4	5

1	التنبؤ والتخطيط للأنشطة و العمليات السنوية.	1	2	3	4	5
2	تحفيز المدراء لانجاز المعايير المطلوبة في الموازنة.	1	2	3	4	5
3	تخصيص وتوزيع الموارد المتاحة على الأقسام في الشركة بطريقة فعّالة.	1	2	3	4	5
4	إيصال الخطط للمديرين في مختلف المستويات الإدارية.	1	2	3	4	5
5	تقييم أداء المديرين والعاملين.	1	2	3	4	5
6	وسيلة تتبعها الإدارة العليا لإيضاح ومناقشة التغيرات التي تحدث في الشركة .	1	2	3	4	5
7	الرقابة على الأنشطة والتحقق من الانحرافات .	1	2	3	4	5
8	تنسيق أنشطة الأقسام المختلفة وزيادة التفاعل فيما بينها.	1	2	3	4	5
9	للتعلم ومناقشة قرارات وممارسات مدراء الأقسام.	1	2	3	4	5

الجزء (ب): <u>المشاركة بوضع الموازنات التقديرية</u> : *يهدف هذا الجزء لمعرفة مدى مشاركة المدراء في مختلف المستويات في إعداد الموازنات التقديرية, الرجاء وضع إشارة (√) أمام العبارة التي تعتبر <u>أقرب لوصف</u> طبيعة المشاركة في الموازنة داخل الشركة:*

☐ **<u>الموازنة من أسفل إلى أعلى</u>:** بشكل عام الإدارات الدنيا تتولى مسؤولية إعداد التقديرات التي تخص موازنات أقسامهم, وبعدها ترسل للإدارة العليا لإقرارها وإعداد الموازنة الإجمالية الشاملة و بما يتفق مع الأهداف والاستراتيجيات العامة للشركة.

☐ **<u>الموازنة من أعلى إلى أسفل</u>:** الإدارة العليا تقوم بإعداد تقديرات الموازنات بأدنى حد من مشاركة الإدارات الدنيا أو رؤساء الأقسام, ثم ترسلها إلى الإدارات الدنيا التي تتولى مسؤولية التنفيذ فقط دون تحمل الإدارات الدنيا أي مسؤولية في إعداد تقديرات الموازنة .

الجزء (ج): ممارسات وخصائص الموازنات: ***يهدف هذا الجزء لمعرفة ممارسات وخصائص الموازنات التقديرية في الشركة, باستخدام المقياس أدناه الرجاء وضع إشارة (√) أمام الخيار المناسب:***

أبداً	نادراً	أحياناً	غالباً	دائماً
1	2	3	4	5

1	مطابقة الأرقام المقدرة في الموازنات مع المتحقق فعليا مهم جدا.	1	2	3	4	5
2	إجراء التعديلات على معايير الموازنة تتطلب موافقة الإدارة العليا.	1	2	3	4	5
3	أي اختلافات جوهرية بين الأرقام المقدرة في الموازنات و المتحقق فعليا يتطلب تفسيرات مكتوبة.	1	2	3	4	5
4	إجراء التعديلات على المعايير يتم فقط في ظل ظروف استثنائية.	1	2	3	4	5
5	تحقيق المعايير المدرجة في الموازنات من قبل المدراء في غاية الصعوبة.	1	2	3	4	5
6	يوجد تعاون مستمر بين الإدارة العليا ومدراء الأقسام في عملية وضع معايير الموازنة.	1	2	3	4	5

الجزء(د): أنواع الموازنات المستخدمة : ***تعتبر الموازنات التشغيلية والموازنات المالية من أهم أنواع الموازنات المستخدمة في الشركات, يرجى وضع إشارة (√) أمام النوع الذي يستخدم في الشركة ,يمكن وضع إشارة عند أكثر من نوع:***

الموازنات التشغيلية

- موازنة المبيعات/الإيرادات ☐
- موازنة الإنتاج ☐
- موازنة المواد الخام المباشرة ☐
- موازنة العمل المباشر ☐
- موازنة تكاليف التصنيع غير المباشرة ☐
- موازنة المصاريف البيعية ☐
- موازنة المصاريف الإدارية ☐

موازنات أخرى:____________

الموازنات المالية

- قائمة التدفقات النقدية (الداخلة/الخارجة) التقديرية ☐
- موازنة الإنفاق الرأسمالي ☐
- قائمة الدخل التقديرية ☐
- قائمة المركز المالي التقديرية ☐

موازنات أخرى:____________

القسم الثاني : <u>معلومات عن طبيعة عمل الشركة</u>

الجزء(أ): ***العبارات التالية تساعدنا أكثر لفهم طبيعة عمل الشركة التي تعملون فيها, باستخدام المقياس أدناه يرجى وضع إشارة (√)أمام الخيار المناسب حسب تقديرك لموقف الشركة مقارنة بأقرب الشركات المشابهة لها في نفس القطاع:***

منخفض جداً	منخفض	متوسط	عالي	عالي جداً
1	2	3	4	5

1	سعر بيع المنتج.	1	2	3	4	5
2	تكلفة المنتج.	1	2	3	4	5
3	صورة الماركة/ العلامة التجارية (مجموعة المعتقدات التي يحتفظ بها المستهلكون عن علامة تجارية بعينها).	1	2	3	4	5
4	مميزات المنتج (مجموع مميزات و خواص المنتج أو الخدمة التي تؤثر على قدرة المنتج في تلبية الاحتياجات الصريحة والضمنية للمستهلك).	1	2	3	4	5
5	تخصيص المنتج(مطابقة المنتج لذوق المستهلك).	1	2	3	4	5

الجزء(ب): <u>معلومات عامه عن الشركة</u> : *الأسئلة التالية تساعد على تصنيف الشركة حسب النوع و النشاط, الرجاء كتابة الإجابة في الفراغ المتاح:*

1. عدد العمال الذين يعملون بدوام كامل (تقريبا). ....
2. قطاع الصناعة (مثلا صناعة الأدوية، صناعة الورق) ....
3. الحجم التقريبي للمبيعات السنوية للشركة ....
4. عمر الشركة (منذ سنة التأسيس) ....

الجزء (ج): <u>معلومات عن المستجيب</u>: *تهدف الأسئلة التالية لتصنيف المستجيبين, حيث نؤكد من جديد أن جميع المعلومات التي يقدمها المستجيب سوف تعامل بسريه, ولن يتم الكشف عنها تحت أي ظرف من الظروف:*

1. عدد سنوات الخبرة في هذه الوظيفة. ....
2. عدد سنوات الخبرة بشكل عام (قبل العمل بهذه الوظيفة). ....
3. المستوى التعليمي (دبلوم , بكالوريوس, ماجستير, دكتوراه). ....
4. الشهادات المهنية (CMA,CPA,JCPA,CIA....). ....

لا يوجد أسئلة أضافية , شكرا جزيلا لمساعدتكم في تعبئة واستكمال هذا الاستبيان, في حال رغبتكم بإضافة أي اقتراحات تساهم في تحسين الدراسة يرجى ذكرها في الفراغ المتاح أدناه.
